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Maritime Life

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Lasting Impressions: The Maritime Life Way

2003 Annual Report



THE MARITIME LIFE ASSURANCE COMPANY

The John Hancock Connection

MARITIME LIFE is a subsidiary of Boston-based John Hancock Financial Services, Inc. and an affiliate of the John Hancock Life Insurance Company. Maritime Life's long-standing relationship with John Hancock has benefited both companies for more than three decades and has enabled each to take full advantage of the other's expertise and operations.

With the life company being founded more than 140 years ago, the Hancock name has long been known for financial strength and stability. The Hancock companies stand by their customers, offering individuals and institutions some of the best products such as annuities, mutual funds, life insurance and long-term care insurance. Today, John Hancock Life is among the highly-rated insurance companies as judged by the major rating agencies. Success is based on the depth of products and outstanding service. John Hancock's vision for the future is one of innovation and a continued focus on customer needs.

During the third quarter of 2003, John Hancock Financial Services, Inc. and Manulife Financial Corporation announced that they had entered into a merger agreement. The transaction, expected to be completed in the second quarter of 2004, requires for completion the approval by various regulatory agencies, in both the U.S. and Canada.

As of December 31, 2003, John Hancock and its subsidiaries had total assets under management of $142.5 billion US.

Our Vision

Our vision is to be a leading provider of financial security products, offering exceptional customer service from satisfied employees, resulting in superior profitability and growth.



President's Message



Maritime Life has built a tradition of excellence through our customer service, innovative product development, flexibility and our common sense approach to business.

FISCAL 2003 WAS A MILESTONE YEAR for Maritime Life. It was a year characterized by continued growth and excellent profits. Throughout 2003, Maritime Life continued to build upon those things that have distinguished us from our competitors in the past, and the results were impressive.

On the financial side, profits increased by 47.7 per cent over 2002, with net income exceeding $90 million. Net income was positively affected by the acquisition of Liberty Health and the impact of recovering equity markets.

One of our major accomplishments this year was the successful acquisition and integration of the insurance business of Liberty Health. Our fourth major acquisition in eight years, the Liberty Health acquisition solidified Maritime Life's position as one of the top group insurers in Canada. The $140 million transaction also added a new business—individual health insurance—to our company. The completion of this acquisition continued a tradition of ambitious growth for Maritime Life, creating benefits for our employees, our business partners and, of course, our customers.

Over the past year, Maritime Life also continued to distinguish itself through its commitment to service excellence. According to our annual survey, customer satisfaction improved last year for group customers, reaching an exceptional rating of 94 per cent. On the retail side, customer satisfaction stayed about the same for protection customers and dipped slightly for investment product customers. Pension customers had a satisfaction rating of 92 per cent, off from a record high of 96 per cent in 2002.

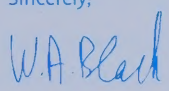
Our annual employee survey indicated that for the second consecutive year, 91 per cent of our employees are satisfied overall. Maritime Life was also recognized for the fifth consecutive year by the *Globe and Mail's Report on Business* magazine in "The 50 Best Companies to Work for in Canada" ranking. We are one of only two companies in Canada to have received this prestigious honour every year since the survey's inception.

Maritime Life continued to deliver on its commitment to provide customers with quality products and flexible options to meet their changing needs. We unveiled enhancements to our popular critical illness and universal life products, and launched new term and universal life products, new segregated funds and a new term deposit account called the Performance Linked Account, which has been receiving positive reviews. While overall sales were lower than anticipated, our profitability prospects continue to be strong and the quality of our investment portfolio is excellent.

During the third quarter, the parent company of Maritime Life, John Hancock Financial Services, Inc. and Manulife Financial Corporation announced that they had entered into a merger agreement. The transaction, expected to be completed by the second quarter of 2004, is subject to approval by regulatory agencies in the U.S. and Canada.

Maritime Life has built a tradition of excellence through our customer service, innovative product development, flexibility and our common sense approach to business. The strong results we recorded this year reflect the dedication, commitment and hard work of our employees. I would like to thank Maritime Life's employees and distribution partners across Canada for their continuing support and commitment. Together, we have built an exceptional company and we have much to be proud of.

Sincerely,



William A. Black
President & Chief Executive Officer

Corporate Profile

MARITIME LIFE IS AMONG the top four* insurers in Canada based on 2002 market data. We offer customers from coast to coast a variety of personal insurance, disability and critical illness insurance, supplemental health and dental insurance, investment products, pension and retirement solutions, and group life and health products and services to meet their needs.

For 80 years, we've grown steadily and diversified our product offerings to build and protect the wealth and well being of Canadians. Today, as we always have, we strive to consistently provide excellent customer service and a satisfying work experience for our staff of more than 2,700 employees. Focusing on relationships and service has always been our way.

We are the largest life insurer that sells to individuals exclusively through a national network of independent financial advisors. Through these partnerships, we believe Canadians receive informed advice to meet their particular protection or investment needs.

For large and mid-sized employers, unions and trusteed groups, and professional associations, we offer a broad array of group life, health and disability insurance products. As a provider of pension and retirement solutions, we tailor plans to meet not just the needs of our customers, but their plan members as well.

Maritime Life is headquartered in Halifax, with additional offices in Montreal, Toronto, Kitchener, Markham, Calgary and Vancouver. We are an Imagine company and are proud to support our communities through our community investment programs. In 2003, for the fifth consecutive year, the *Globe and Mail's Report on Business* magazine named Maritime Life one of "The 50 Best Companies to Work for in Canada."

For more information, we invite you to visit our Web site at **www.maritimelife.ca.**

** an internally calculated aggregate measure that combines our rankings in individual life sales and revenue premium, investment product sales and assets, group sales and revenue premium and total assets under administration.*

Management's Discussion & Analysis



Income before income taxes was $150.7 million, $27.0 million or 21.8%, higher than the same period last year.

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) presents management's view of the financial position and performance of The Maritime Life Assurance Company ("Maritime Life" or the "Company") for the year ended December 31, 2003 compared with 2002. The MD&A should be read in conjunction with the information disclosed within the annual consolidated financial statements and notes to those consolidated financial statements as determined using Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The MD&A provides an overall discussion, followed by analyses of the performance of the Company's major reportable segments (see note 26 to the consolidated financial statements). All amounts included in the MD&A are expressed in millions of Canadian dollars, unless otherwise indicated.

Forward-looking Statements

This report may contain forward-looking statements about future operations, financial results, objectives and strategies of the Company. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate" and other similar expressions.

These statements are necessarily based on estimates and assumptions that are inherently subject to risks and uncertainties, many of which are beyond the Company's control. Actual results may differ materially due to a variety of factors, including legislative, or regulatory developments, competition, technological change, capital market activity, interest rates and general economic and political conditions domestically or internationally.

Readers are urged to consider these and other such factors carefully, and not place undue emphasis on the Company's forward-looking statements.

Unless otherwise required by securities laws, the Company does not intend or have any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overall Performance

Financial Results In Summary

	2003	2002	
Consolidated net income to shareholders	$ 91.3	$ 61.8	47.7%
Earnings per common share (in dollars)	221.84	156.18	42.0%
Assets under management	16,713.4	14,368.8	16.3%

Consolidated net income to shareholders was positively impacted by the acquisition of the Liberty Health business effective July 1, 2003, the impact of recovering equity markets and continued positive credit conditions while negatively impacted by lower sales and deposits and an $18.1 million after-tax charge reflecting recapture of reinsurance on significant portions of Group life and health insurance, including long-term disability.

Assets under management increased 16.3% from the prior year, primarily due to stronger equity markets in 2003, as well as $181.0 million of assets received as part of the Group reinsurance recapture transaction and $186.4 million received as part of the Liberty Health transaction.

Acquisition

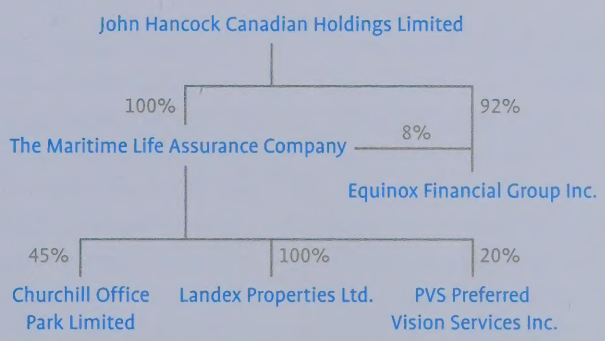
On July 8, 2003, the group life, disability and health and the individual health business of Liberty Health, a Canadian branch of U.S.-based Liberty Mutual Group, was acquired under the terms of an assumption reinsurance arrangement. This transaction, worth approximately $140.0 million, was effective on July 1, 2003. This positions Maritime Life as one of the top three providers of group life and health benefits in Canada. In addition, the individual health business, currently relatively small, is a new business opportunity for the Company.

The acquired individual health business is sold directly and through affinity groups, as is certain business of the Group Life & Health segment. Accordingly, both of these businesses have been combined into a new, Specialty Markets division, which has been grouped into the Retail Protection segment for financial reporting purposes. All historical information has been reclassified from the Group Life & Health segment to the Retail Protection segment.

Pending Transaction

On September 28, 2003, the Company's parent company, John Hancock Financial Services, Inc. announced that it had entered into a merger agreement with Manulife Financial Corporation and Jupiter Merger Corporation (a Delaware corporation and a direct wholly-owned subsidiary of Manulife Financial Corporation). The merger agreement provides for the merger of John Hancock and Jupiter Merger Corporation, with the surviving corporation of the merger being a direct, wholly owned subsidiary of Manulife Financial Corporation. The merger is subject to certain regulatory and governmental approvals. If the proposed merger proceeds, Maritime Life is expected to become part of the merged company's North American division, however, the form and manner in which the combined companies may be integrated following completion of the merger is unknown at this time.

Corporate Organization



Sales and Growth

	2003	2002	
Annualized premium from individual and group insurance sales, including rate increases and extensions	$ 317.9	$ 311.7	2.0%
General fund deposits including group pensions	383.4	277.3	38.3%
Institutional annuities	200.0	350.0	(42.9)%
Segregated fund deposits	474.8	591.2	(19.7)%

For sales results by segment, see "Segmented Information" below. Generally, insurance sales were disappointing compared to 2002. New deposits in 2003 continued to reflect investor interest in guaranteed products. A very competitive pricing environment dampened new issues of institutional annuities, compared to 2002. New deposits of segregated fund fell 19.7% from the prior year, as investors were cautious about equity market volatility.

Quarterly Results

(unaudited)

	2002				2003			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Revenue	$ 901.9	$ 463.7	488.3	$ 584.9	$ 590.0	$ 668.7	$ 741.8	$ 1,017.0
Net income to shareholders	27.2	0.5	17.9	16.2	7.9	29.6	24.8	29.0
Earnings per common share *(in dollars)*	72.62	(3.78)	46.06	41.28	12.30	74.97	61.25	73.32

Revenue in the first quarter of 2002 includes $350.0 million of premiums from institutional annuities. The institutional annuities business is described in note 17 to the accompanying financial statements. As discussed in the note, annuity premiums are reflected as revenue when collected and, due to the large dollar amount of the annuities issued, this has a dramatic impact on inter-period comparability of revenue. There is also a corresponding increase in the change in the provision for policyholder benefits therefore, the impact on net income of an issuance of an institutional annuity in any given period is minimal, while future profit is expected from investment spreads. A further $200.0 million of institutional annuities were issued in the fourth quarter of 2003.

Consolidated net income to shareholders in the second quarter of 2002 was adversely affected by an after-tax credit loss of $9.5 million on Teleglobe Inc. A further $5.6 million pertained to after-tax losses from discontinued RSAF products and high lapses in the RSAF term insurance block. Consolidated net income to shareholders in the first quarter of 2003 was affected by after-tax changes in policy liabilities for segregated fund guarantees of $6.4 million and a $10.8 million net charge reflecting reinsurance recapture during the quarter.

The acquisition of Liberty Health on July 1, 2003, contributed $225.5 million and $13.3 million to the higher revenue and net income respectively for last half of 2003.

Quarterly Sales & Growth

	2002				2003			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Retail Protection annualized premium	$ 20.7	$ 20.1	$ 18.3	$ 20.4	$ 18.1	$ 18.0	$ 20.9	$ 19.0
Asset Gathering new deposits	296.6	184.0	204.2	183.6	250.4	197.7	172.1	238.0
Asset Gathering– institutional annuities	350.0	–	–	–	–	–	–	200.0
Group Life & Health annualized premium including extensions	55.8	30.2	10.9	22.7	31.7	25.4	36.2	24.7

Results of Operations

Net income to shareholders was $91.3 million or 47.7% higher than the result for 2002. After-tax participating policyholders' income of $18.8 million increased by $13.8 million, or 277.5%, over the comparative year, primarily due to changes in the provision for future policy benefits. The effective tax rate for the current year was 26.9% primarily reflecting favourable differences between taxable income and accounting income of certain securities gains. The comparative year included losses for those securities, resulting in an effective rate in 2002 of 46.0%.

Income before income taxes was $150.7 million, $27.0 million or 21.8%, higher than the same period last year. The variance includes $63.5 million of favourable experience factors across all lines of business, $17.8 million from the acquisition of Liberty Health, lower individual annuity deferred

Ratings

Rating Agency	*Rating*	*Description*
Claims Paying Ability		
A.M. Best	A+	Superior
Moody's	A1	Good
S & P	AA-	Very Strong
DBRS	IC-2	Satisfactory credit quality
Cumulative preferred shares: (1986 issue – MMF.PR.A)		
S & P*	A-	Strong
DBRS	Pfd-2 (high)	Satisfactory credit quality
Non-cumulative preferred shares: (1999 issue – MMF.PR.B)		
S & P*	A-	Strong
DBRS	Pfd-2 (high)n	Satisfactory credit quality
Non-cumulative preferred shares: (2002 issue – MMF.PR.C)		
S & P*	A-	Strong
DBRS	Pdf-2(high)n	Satisfactory credit quality

Ratings

Our financial and fiscal strength is monitored by external ratings agencies. Favourable ratings give comfort to our policyholders, customers and investors that the Company is prudently managed and financially strong.

** indicates a Global Rating*

acquisition costs of $15.6 million, and improved credit experience on assets of $14.3 million partially offset by a $24.8 million pre-tax charge previously reported for recapture of a significant portion of group life, accidental death and dismemberment and long-term disability reinsurance and $59.4 million from releases of provisions for future policy benefits in 2002 that were not repeated in the current year.

Our financial reporting segments include Retail Protection, Asset Gathering, Group Life & Health and Corporate & Other. Results by segment are shown in note 26 to the consolidated financial statements. The comments below focus on profitability and growth measures.

Retail Protection

Income before income taxes was $71.4 million for the year, up $22.3 million from the prior year. The increase included $3.3 million, an 8.4% increase in the non-participating business, and $19.0 million, a 189.6% increase in the participating business.

Good claims experience in the Living Benefits product lines contributed $15.4 million, boosted by a further $4.3 million of actuarial reserve releases reflecting improving morbidity assumptions. Individual life products contributed $11.2 million however this includes a $28.4 million allocation of investment income on surplus.

Favourable experience factors contributed $9.3 million but were more than offset by changes in the provisions for future policy benefits of $26.5 million, primarily reflecting revisions to lapse and interest rate assumptions following completion of the annual experience studies. The specialty market products contributed $11.6 million overall, including a positive contribution of $9.6 million from the acquired individual health business.

The participating business had $12.0 million contributed from favourable experience in 2003 compared to $7.9 million in 2002. Changes in actuarial assumptions contributed a further $17.0 million to the participating business in 2003, compared to $2.1 million in 2002.

Total segment revenue increased by $254.4 million from the level attained in 2002, primarily due to $238.6 million of higher net investment income earned on universal life products. This favourable investment result is similarly reflected in higher policy benefits paid and accrued as these investment gains are allocable to universal life policyholders. Premiums increased $14.6 million reflecting $51.5 million of premium contributed by the Liberty Health acquisition partially offset by $25.9 million lower universal life premium, $8.3 million lower traditional life product premium, and $1.8 million lower premium on participating products.

Individual life insurance sales measured as annualized premium were down 12.4% compared to the result in 2002, reflecting a 20.0% decrease in the value of universal life sales partially offset by a 2.3% increase in term life sales and 2.3% increase in "Term to 100" product sales. The universal life sales result reflects a current trend to smaller premium levels on new policies and slow response to recent universal life product changes. Living Benefits sales were comparable to 2002, with a 3.3% increase in critical illness product sales almost offset by a 2.3% decrease in disability income.

Asset Gathering

The Asset Gathering segment had income before income taxes of $45.2 million, up $1.6 million or 3.6% from last year, including a $15.0 million increase in the allocation of investment income on surplus. The change is primarily a result of $15.6 million of lower deferred acquisition cost amortization and an $8.0 million improvement in credit experience within the institutional annuities business, offset by a $40.0 million release in 2002 of actuarial provisions established for segregated fund guarantees.

Under Canadian generally accepted actuarial standards, certain acquisition costs incurred in selling new individual annuity policies are capitalized within the provision for future policy benefits and are amortized over the life of the policy. Amortization charges are a reduction of pre-tax income.

Amortization charges in the current year were $29.7 million, compared to $45.3 million in 2002. New guidance issued by the Canadian Institute of Actuaries concerning the valuation methodology used to calculate amortization resulted in a lower future amortization rate.

For segregated funds, the Company guarantees minimum proceeds on the maturity date of the policy or on the earlier death of the annuitant. For 2002, there was a net release of the associated provisions for future policy benefits of $40.0 million reflecting a move to revise the valuation practice under guidance issued by the Canadian Institute of Actuaries. For the current year, the improved equity market conditions have suggested that no further strengthening of this provision is required.

Total segment revenue decreased $77.5 million from the prior year. Institutional annuities sales, reflected on the income statement as premium revenue, of $200.0 million in 2003 were $150.0 million lower than last year. Excluding the impact of the institutional annuities, total revenue increased 17.8%, driven by growth in guaranteed deposits. Also, after removing the impact of the institutional annuities sales, policy benefits paid and accrued increased $88.6 million or 27.8% from 2002, as policyholders more than doubled the transfer of funds out of equity market investments in segregated fund products to guaranteed deposits held within the general fund.

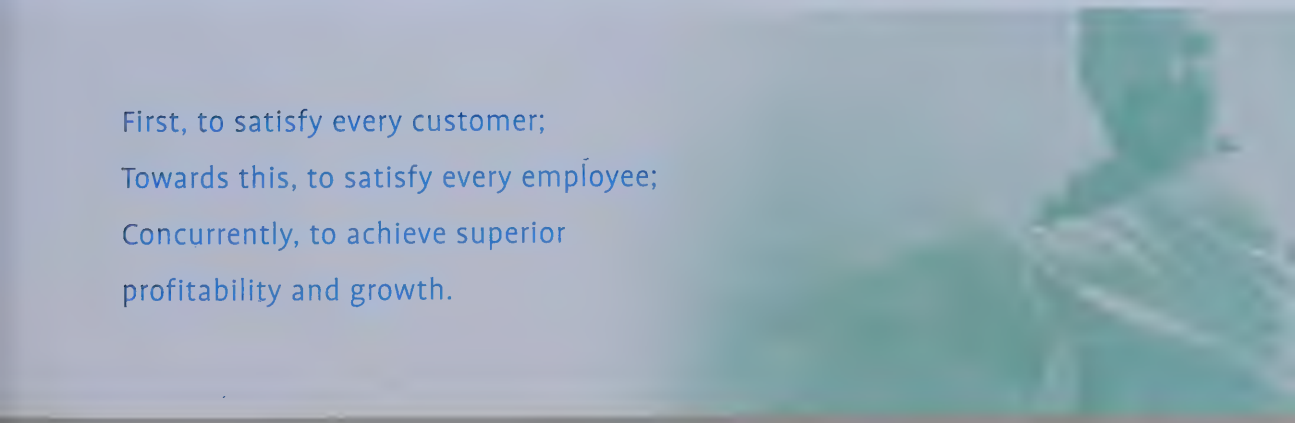
Total deposits of guaranteed products, segregated fund products and group pensions fell by 1.2% or $10.3 million over levels from last year. Segregated fund deposits fell by 19.7% as customers shied away from volatile equity markets in the early part of the year in favour of "safe haven" deposits, thus guaranteed deposits grew by 33.7%. Group pension deposits grew by 43.6% on a year over year basis due to increased marketing focus on this product line.

Group Life & Health

Group Life & Health had income before income taxes of $40.8 million, down $0.1 million from 2002. A $24.8 million pre-tax charge related to the life, accidental death & dismemberment and long-term disability reinsurance recapture transaction was substantially offset by improved profits from pricing decisions implemented in 2002, resulting in favourable life and long-term disability results.

Total segment revenue increased by $405.7 million from the level attained in 2002, with $373.5 million due to higher premium revenue. The premium increase includes $87.7 million due to the reinsurance recapture discussed above, $158.5 million from the Liberty Health acquisition and $127.3 million due to new and inforce growth.

New sales, including extensions and rate increases, in the group life and health segment were flat on a year over year basis due to slower merger and acquisition activity in Canada in 2003.



First, to satisfy every customer;
Towards this, to satisfy every employee;
Concurrently, to achieve superior
profitability and growth.

Corporate & Other

The Corporate & Other segment had a loss before tax of $6.7 million, an improvement of $3.2 million from the 2002 result due primarily to increased allocations to the business lines of corporate expenses partially offset by higher compensation expense of $7.1 million driven by the increase in fair value of a stock option/stock appreciation right plan for executive officers.

Financial Position

The General Fund assets of the Company are $10.8 billion, up 17.4% from 2002.

Our current invested asset mix is depicted in the following table. Our investment risk is mitigated through diversification of asset type, geographical locale and industry sector.

General Fund Invested Asset Mix
as at December 31
(in millions)

	2003		2002	
	Carrying Value	% of Total	Carrying Value	% of Total
Bonds				
– government	$ 2,068.9	21.0	$ 1,734.1	20.4
– publicly-traded	2,290.8	23.3	1,925.8	22.6
– privately placed	1,256.5	12.8	1,129.0	13.3
Mortgages				
– government insured	1,361.7	13.8	1,142.5	13.4
– commercial	1,060.0	10.8	986.1	11.6
– multi-residential	232.4	2.4	225.1	2.6
Equities				
– preferred shares	292.4	3.0	314.8	3.7
– common shares	179.5	1.8	149.8	1.8
– other	572.0	5.8	455.3	5.3
Real Estate				
– foreclosed	–	–	0.3	–
– investment	136.7	1.4	140.7	1.7
Short-term Investments	392.1	3.9	304.9	3.6
Total	$ 9,843.0	100.0%	$ 8,508.4	100.0%

Invested assets represent 91.2% of the total assets; non-invested assets such as premiums receivable, policy loans, other assets and goodwill account for the remaining $945.1 million.

Government bonds represent obligations of federal and provincial entities across Canada. Government bonds have excellent credit ratings and are highly liquid. The combination of government-insured mortgages and government bonds means over 31.8% of assets are backed by the strength of the federal and provincial governments of Canada. Corporate bonds are publicly traded and provide good

diversity and liquidity. Private placement bonds represent investments throughout the North American economy. The portfolio is diversified by industry sector including power generation, manufacturing, transportation and retail holdings in order to reduce risk. These types of bonds are typically funded by a small group of institutional investors and are not widely bought and sold, as is the case for publicly traded bonds.

Canada Mortgage and Housing Corporation (CMHC) government-insured mortgages cover multi-residential developments in cooperation with the Government of Canada and private developers, providing housing to Canadians across the country. Conventional mortgages provide financing for real estate in office buildings, retail outlets, warehouse operations and multi-residential developments.

Equities include preferred and common stock, both publicly-traded and private, mutual funds and unit trusts like i60's and SPDRs, which are managed to track the S&P/TSE 60 index and S&P 500 index, respectively. More than half of the equities match equity-related investment options that are available to some of our universal life policyholders. These equity investments provide tax efficient diversity for both our policyholders and for corporate purposes.

Real estate includes real estate held for investment and "own use" and a few equity real estate investments.

Short-term investments provide operational liquidity.

Credit Quality

Note 5 to the consolidated financial statements sets out the carrying values of non-performing assets included in the above invested asset table and the continuity of the allowance for asset impairment. The provision for future policy benefits also includes provisions for future asset default losses. For credit risk management practices, see "Risk Management".

The following table summarizes the breakdown of the credit quality assigned to the bonds held by the Company, at December 31.

Bond Credit Quality

as at December 31
(in millions)

	2003		2002	
Rating	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
AAA	$ 941.2	16.8	$ 680.5	14.2
AA	1,417.0	25.2	1,182.8	24.7
A	2,394.8	42.7	2,121.7	44.3
BBB	799.3	14.2	731.3	15.3
BB and lower	63.9	1.1	72.7	1.5
Total	$ 5,616.2	100.0%	$ 4,789.0	100.0%

Liquidity

Cash and cash equivalents increased $127.0 million during 2003, compared to an increase of $132.2 million in 2002.

Operating cash flow was $158.2 million more than the result in 2002. Investing activities, before capital expenditures and acquisitions used $140.3 million more cash than in 2002, primarily reinvestment from reinsurance recapture and deployment of cash received from the assumption of the Liberty Health business. Therefore, combined operating and investing activities contributed $60.5 million of cash in 2003 compared to $42.5 million in 2002. Capital expenditures, including capital assets, leasehold improvements and capitalized software, were $35.9 million in the current year, up $9.5 million from 2002 primarily due to increased software development and systems integration activities.

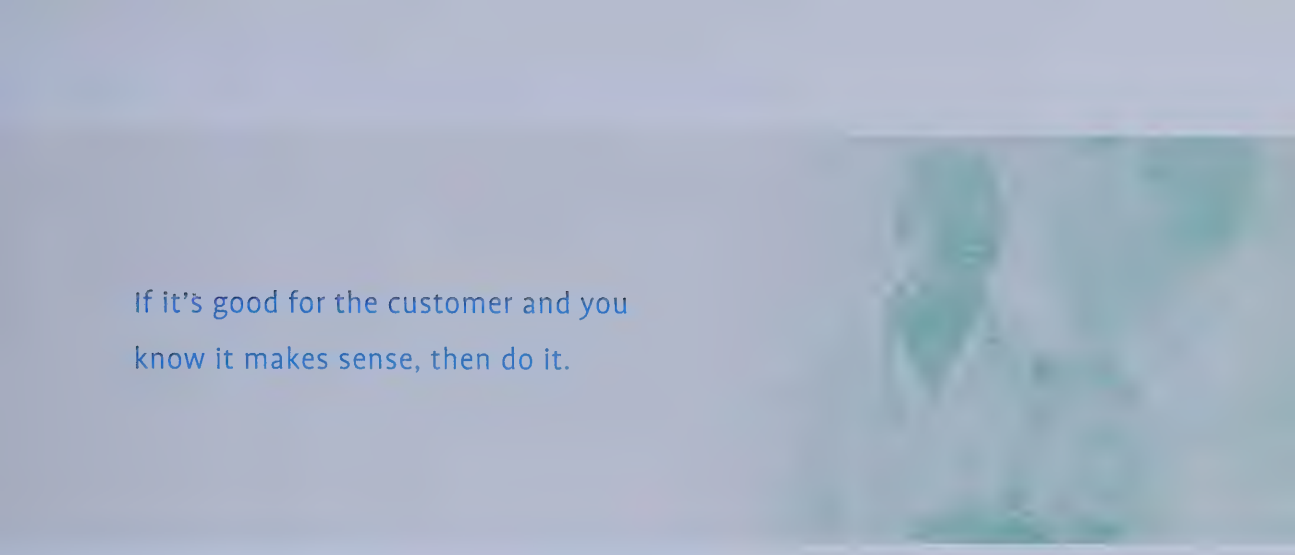
It is important that any financial institution has access to cash to make policy benefit and expense payments as they come due. Sources of liquidity include readily marketable assets such as government bonds, public bonds, and preferred shares as well as cash and lines of credit. The risk of illiquidity increases if principal and interest cash flows related to assets, liabilities and off-balance sheet items are mismatched. The Company has established a strategic liquidity plan for maintaining a sufficient level for short-term and long-term highly marketable securities to meet unexpected and adverse business conditions. Operating liquidity is maintained by ensuring an adequate cash flow is obtained from the Company's sources of funding—its premium and investment income, an operating cash float and bank overdraft facilities.

To monitor ongoing compliance with the strategic liquidity plan, the Company uses a strategic liquidity measure. Liability factors range from 100% of the liability if an immediate book value cash out privilege exists to 0% of the liability if there is no cash value (e.g. immediate annuities or term insurance) and an intermediate factor for a liability with a meaningful cash out restriction (e.g. surrender charge or market value adjustment). Similarly, asset factors range from 100% of the asset value of readily marketable assets that have limited price volatility (e.g. government bonds, public bonds and preferred shares) to 0% if the marketability of the assets is considered limited or very time-consuming (e.g. conventional mortgages and real estate) and an intermediate factor for other asset classes (e.g. private bonds, insured mortgages and common stocks).

The principal lever for maintaining an acceptable ratio is adjustment to asset mix. The table below shows the strategic liquidity at December 31.

Strategic Liquidity
(in millions of dollars, except ratios)

	2003	2002
Total assets	$ 10,788	$ 9,187
Net liquid assets	6,152	5,367
Total policyholder liabilities	8,605	7,236
Net liquid liabilities	1,417	1,400
Strategic liquidity ratio	434%	383%
Minimum target ratio	250%	250%



Capital Resources

Total shareholders' equity was $1,246.0 million, or 14.5% higher than last year, resulting from both the increased net income and a capital contribution of $80.2 million to assist in financing the Liberty Health acquisition. Our capital structure reflects a mix of forms of capital available to financial institutions, optimizing our cost of capital while providing security to our policyholders.

The Company's consolidated risk based capital ratio, defined by the Office of the Superintendent of Financial Institutions (OSFI) as Minimum Continuing Capital and Surplus Requirements (MCCSR) was 184% at December 31, 2003 (2002 – 192%). OSFI's definition of eligible capital reflects various forms of capital and surplus.

The Company intends, when appropriate, to pay common share dividend payments from surplus cash to its immediate parent company as part of its overall capital strategy.

Risk Management

The Company faces a variety of risks in conducting its businesses. Management has developed policies and procedures to enable it to respond to these risks. The Board of Directors approves the Company's overall risk management policies including policy retention limits and reinsurance limits and receives annually a Dynamic Capital Adequacy Report prepared by the Appointed Actuary which provides guidance to the Board on the significant risks to which the Company may be exposed. Policies relating to product design and pricing are approved by the Chief Actuary & Risk Officer, the Chief Financial Officer and the Chief Executive Officer. The Customer Issues Committee reviews policy marketing strategies, market conduct and customer satisfaction levels and approves the dividend scale for participating policyholders. The Investment Committee reviews policies covering the investment risks, including asset mix, credit risk, interest rate risk, asset/liability matching and liquidity risk. The Audit Committee reviews overall internal controls as well as general and commercial insurance coverage. The Human Resources Committee reviews all staffing and compensation policies and succession plans. The Conduct Review and Corporate Governance Committee reviews the regulatory and risk management compliance processes used by the Company.

Compliance with policies is monitored at defined intervals by the Company's Chief Compliance Officer and internal and external auditors, and is reviewed periodically by OSFI. For additional information on risks and our risk management practices, reference is made to Notes 7, 9, 10, and 24 in the consolidated financial statements.

Pricing Risk

Pricing involves estimates and assumptions of such factors as mortality, morbidity, future investment yields, expenses and surrenders. Pricing risk is the risk that actual experience will not develop as estimated in pricing. Management of pricing risk includes careful product design, extensive use of modeling and sensitivity testing as well as monitoring through experience studies.

For new Retail products the Chief Actuary & Risk Officer and the Chief Financial Officer review the actuarial assumptions, design and methodology. The Senior Vice-President, Retail Marketing reviews the marketing opportunity and sales outlook for new products and the administration capacity and the Chief Investment Officer reviews the investment aspects. The Chief Executive Officer provides the final approval for the product introduction. Profit emergence is compared against pricing assumptions periodically and remedial action can include redesign, re-pricing of new and future policies or adjustment to asset/liability matching strategies. Risk management for new products in the Group Division focuses on review of actual experience against inter-company studies. Pricing of new and renewal business is adjusted according to emerging trends.

Claims Risk

Claims risk is the risk that actual mortality and morbidity experience exceeds underwriting expectations. The Company manages its claims risk through comprehensive underwriting and claims payment guidelines.

Reinsurance is used to mitigate excessive exposure to individual lives or benefits. The Company's maximum retentions, established separately for individual life, living benefits, group life and group health are subject to Board approval. In 2002, the Board approved a revision to these maximum limits to reflect the Company's capacity to participate in a higher level of risk retention given its increased capital base, current financial strength and stability.

Product Performance Guarantees

The Company guarantees minimum rates of return with respect to the savings elements of adjustable and universal life insurance policies. For segregated funds, the Company also guarantees minimum proceeds on the maturity date of a policy or the earlier death of the annuitant.

Risk management for product guarantees includes revision of product features for future new issues, and adjustments to policy charges on existing policies where contract terms allow. For segregated funds' guarantees, the product design and marketing focus have produced a widely dispersed maturity date profile that provides diversification and risk mitigation. The Company regularly monitors its exposure to these guarantees, measures their costs and risk under a wide range of scenarios and reports quarterly to the Investment Committee of the Board.



Our dynamic positive work environment comes from teamwork and treating one another with respect and professionalism.

Interest Rate Risk

The Company's financial position may be affected by its exposure to interest rate risk. Interest rate risk is the risk of economic losses or gains arising from the reinvestment or disinvestments (sale) of assets. If the cash flow from assets supporting the policy liabilities do not match the timing and amount of the policy cash flows, interest rate losses or gains may occur due to changing interest rates in the future. The Company has an asset/liability management program that seeks to achieve an effective match. The quality of the asset/liability matching program is reviewed quarterly using duration measures and cash flow testing under alternative economic scenarios. This program is also reported quarterly to the Investment Committee of the Board.

Credit Risk

Credit risk is the exposure to loss in the event of non-performance or failure of an investment. Exposure to credit loss is managed through compliance with investment policy standards for quality ratings, maximum single issuer guidelines, diversification of type and location of properties and, for mortgages and real estate, independent borrower and appraisal reviews. Compliance is measured frequently and reported to the Investment Committee quarterly.

Market Risk

Market risk is the exposure to investment loss from general economic and stock market fluctuations. The Company's asset mix guidelines identify limits on the amount and quality of equity investments. Compliance with these limits is reviewed frequently and reported to the Investment Committee quarterly.

Derivative Instruments

The Company uses derivative financial instruments where appropriate to achieve its asset/liability management strategies and to assist in the management of financial risk, including interest rate and foreign exchange risks. All of the Company's derivative financial instruments are held for hedging purposes, not for speculation. Financial institution counterparties for the Company's derivative activities are rated AA(L) or better by independent rating agencies.

Other Operational Risks

The Company is exposed to other operational risks including legal, regulatory, human resource, tax, technology, outsourcing and market conduct risks. Senior management develops risk identification and monitoring procedures to manage these risks. Operating management is responsible for implementing these procedures. Internal auditors review the effectiveness of the internal controls and report quarterly to the Chief Executive Officer and the Audit Committee.

We take pride in Maritime Life.

We celebrate our achievements.

Responsibility For Financial Reporting



Management

THE ACCOMPANYING consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The consolidated financial statements necessarily include amounts that are based on management's best estimates and judgment. These consolidated financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls, consistent with reasonable cost, designed to ensure that the financial information produced is relevant and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

Board of Directors

As required by *the Insurance Companies Act*, the consolidated financial statements were approved by the Board of Directors which has overall responsibility for their content.

Audit Committee

The Board of Directors is assisted in its responsibility by its Audit Committee, which consists entirely of Directors not involved in the daily operations of the Company, the majority of whom are not affiliated with the Company. The function of the Audit Committee is to:

- review the annual consolidated financial statements of the Company before they are approved by the Board of Directors; require the management of the Company to implement and maintain appropriate internal control procedures; review such investments and transactions that could adversely affect the well-being of the Company as the External Auditor, Internal Auditor or any officer of the Company may bring to the attention of the Committee;
- meet with the External Auditor to discuss the annual consolidated financial statements and transactions as required;
- meet with the Appointed Actuary of the Company to discuss the parts of the Annual Statement prepared by the Appointed Actuary;
- meet with the Internal Auditor of the Company and with management of the Company to discuss the effectiveness of the internal control procedures established for the Company;

- report to the Board of Directors on the review of the annual consolidated financial statements before approval of the Board of Directors is given.

In carrying out this function, the Committee meets with management to review the decisions made in preparing the financial statements and meets with both the Company's external and internal auditors to approve the scope and timing of the respective audits, to review their findings, and to satisfy itself that the audit responsibilities have been properly discharged.

The Appointed Actuary

- is appointed by the Board of Directors.
- is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.
- is required to provide an opinion regarding the appropriateness of the policy liabilities as at the consolidated balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.
- is required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company for the ensuing five years under adverse economic and business conditions.

External Auditors

KPMG LLP have been appointed external auditors pursuant to Section 337 of the *Insurance Companies Act* to report to the policyholders, shareholders and to the Office of the Superintendent of Financial Institutions Canada regarding the fairness of presentation of the Company's financial position and results of operations as shown in the annual consolidated financial statements. Their report appears with these consolidated financial statements.



William A. Black
President and
Chief Executive Officer



Philip J. Pothier
Senior Vice President
and Chief Financial Officer

Auditors' Report

TO THE POLICYHOLDERS AND SHAREHOLDERS OF
THE MARITIME LIFE ASSURANCE COMPANY

We have audited the consolidated balance sheets of The Maritime Life Assurance Company and the segregated funds consolidated statement of net assets as at December 31, 2003 and 2002 and the consolidated statements of income, retained earnings, participating account, cash flows and changes in segregated fund assets for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG L.L.P.
Chartered Accountants
Halifax, Canada
January 30, 2004

Appointed Actuary's Report

TO THE POLICYHOLDERS AND SHAREHOLDERS OF THE MARITIME LIFE ASSURANCE COMPANY

I have valued the policy liabilities of The Maritime Life Assurance Company for its consolidated balance sheets at December 31, 2003 and 2002 and their change in the consolidated statements of income for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amounts of the policy liabilities make appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuations.

Byron Corner

Byron Corner
Fellow, Canadian Institute of Actuaries
Halifax, Canada
January 30, 2004

Consolidated Balance Sheets

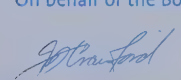
as at December 31, 2003 and 2002 (in thousands of Canadian dollars)

	2003	2002
ASSETS		
Invested assets *(notes 4, 5, 7 and 8)*		
Bonds	$ 5,616,212	$ 4,788,965
Government insured mortgages	1,361,740	1,142,511
Conventional mortgages	1,292,442	1,211,223
Equities	1,043,862	919,859
Real estate	136,730	140,995
Short-term investments	392,121	304,890
	9,843,107	8,508,443
Other assets		
Premiums receivable	92,318	58,123
Policy loans	108,942	110,557
Accrued investment income	68,204	60,782
Goodwill, net *(note 3)*	312,981	234,042
Other *(note 6)*	362,631	214,931
	945,076	678,435
	$ 10,788,183	$ 9,186,878
Segregated fund assets under management	$ 5,925,302	$ 5,181,957
LIABILITIES, PARTICIPATING ACCOUNT AND SHAREHOLDERS' EQUITY		
Policy liabilities *(notes 9 and 10)*		
Provision for future policy benefits	$ 8,038,409	$ 6,680,793
Provision for experience rating refunds	181,380	121,556
Provision for policyholders' dividends	29,505	28,489
Policyholders' funds on deposit	144,305	242,569
Benefits payable and provision for unreported claims	117,510	68,560
Notes payable to reinsurers *(note 11)*	94,105	94,112
	8,605,214	7,236,079
Future income taxes *(note 19)*	135,267	132,106
Deferred net gains *(note 12)*	58,796	49,182
Other liabilities *(note 13)*	377,089	334,343
	9,176,366	7,751,710
Subordinated debt *(note 14)*	276,000	276,000
Participating account *(note 15)*	89,846	71,056
Shareholders' equity		
Share capital *(note 16)*	282,647	282,647
Contributed surplus *(note 3)*	616,378	536,203
Retained earnings	346,946	269,262
Total shareholders' equity	1,245,971	1,088,112
	$ 10,788,183	$ 9,186,878

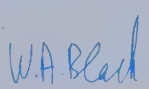
Contingent liabilities and commitments—*see notes 24 and 25*

See accompanying notes to financial statements

On behalf of the Board:



J. D. Crawford
Chairman of the Board



William A. Black
President and Chief Executive Officer

Consolidated Statements of Income

Years ended December 31, 2003 and 2002
(in thousands of Canadian dollars)

	2003	2002
Revenue		
Premiums *(note 10)*		
Insurance	$ 1,770,020	$ 1,381,863
Annuities *(note 17)*	419,714	505,416
Investment income *(note 18)*	663,686	398,913
Segregated fund fees	108,429	111,762
Other income	55,638	40,894
	3,017,487	2,438,848
Policy benefits and expenses		
Policy benefits *(note 10)*	1,474,127	1,201,573
Provision for future policy benefits *(note 9)*	894,885	666,132
Transfer (from) segregated funds	(82,818)	(68,738)
Commissions and operating expenses *(note 10)*	470,972	412,389
Dividends to policyholders	24,257	25,287
Premium and investment income taxes	55,995	50,417
Interest on notes payable *(note 11)*	9,619	8,210
Interest on subordinated debt *(note 14)*	19,727	19,874
	2,866,764	2,315,144
Income before income taxes	150,723	123,704
Income taxes *(note 19)*	40,590	56,888
Net income	110,133	66,816
Undistributed participating policyholders' income	18,790	4,978
Net income to shareholders *(note 20)*	$ 91,343	$ 61,838
Earnings per common share *(note 21)*		

See accompanying notes to financial statements

Consolidated Statements of Retained Earnings

Years ended December 31, 2003 and 2002
(in thousands of Canadian dollars)

	2003	2002
Balance, beginning of year	$ 269,262	$ 214,572
Net income to shareholders	91,343	61,838
Dividends to shareholders		
Preferred	(13,659)	(7,148)
Balance, end of year	$ 346,946	$ 269,262

See accompanying notes to financial statements

Consolidated Statements of Participating Account

Years ended December 31, 2003 and 2002
(in thousands of Canadian dollars)

	2003	2002
Balance, beginning of year	$ 71,056	$ 66,078
Undistributed participating policyholders' income	18,790	4,978
Balance, end of year	$ 89,846	$ 71,056

See accompanying notes to financial statements

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002
(in thousands of Canadian dollars)

	2003	2002
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES		
Net income to shareholders	$ 91,343	$ 61,838
Adjustments for:		
Realized investment (gains) losses, net	(18,602)	19,566
Amortization of deferred, realized and unrealized capital gains (losses)	(93,851)	68,101
Amortization of premiums and discounts	(64,859)	(59,609)
Amortization and depreciation of capital assets	24,370	15,379
Net provisions and write-offs for impaired invested assets	4,754	18,250
Interest capitalized on invested assets	(7,213)	(8,946)
Interest credited to policyholders' funds on deposit	13,279	14,022
Future income taxes	40,444	546
Increase in policy liabilities	1,058,798	592,142
(Increase) decrease in premiums receivable	(476)	14,839
Increase in accrued investment income	(7,422)	(6,055)
(Increase) decrease in other, net	(41,123)	111,134
Cash flows from operating activities	999,442	841,207
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES		
Sales, maturities, prepayments and scheduled redemption of:		
Invested assets *(note 27)*	2,137,696	1,749,077
Policy loans	22,614	15,619
Purchase/issue of:		
Invested assets *(note 27)*	(3,158,437)	(2,526,639)
Policy loans	(16,093)	(10,332)
Property and equipment	(35,885)	(26,392)
Cash acquired, net of ceding allowance *(note 3)*	111,116	–
Cash flows used for investing activities	(938,989)	(798,667)
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES		
Increase in contributed surplus *(note 3)*	80,175	–
Dividends paid to preferred shareholders	(13,659)	(7,148)
Issue of Second preferred shares, Series 3	–	96,796
Cash flows from financing activities	66,516	89,648
Increase in cash and cash equivalents	126,969	132,188
Cash and cash equivalents, beginning of year	220,190	88,002
Cash and cash equivalents, end of year *(note 27)*	$ 347,159	$ 220,190

See accompanying notes to financial statements

Segregated Funds
Consolidated Statements of Changes in Net Assets

As at December 31, 2003 and 2002
(in thousands of Canadian dollars)

	2003	2002
Segregated fund assets, beginning of year	$ 5,181,957	$ 5,787,578
Increase during the year		
Amounts received from policyholders including interfund transfers	1,922,278	1,698,941
Amounts transferred to the General Fund	7,333	4,280
Interest income	91,258	84,034
Dividends	59,397	46,641
Net realized gain (loss) on sale of investments	161,060	(334,667)
Net unrealized increase (decrease) in market value of investments	546,442	(381,020)
	2,787,768	1,118,209
Decrease during the year		
Amounts withdrawn by policyholders including interfund transfers	(1,869,395)	(1,573,321)
Management fees and other operating costs	(109,628)	(119,088)
Distributions paid	(65,400)	(31,421)
	(2,044,423)	(1,723,830)
Segregated fund assets, end of year	$ 5,925,302	$ 5,181,957

See accompanying notes to financial statements

Segregated Funds
Consolidated Statements of Net Assets

As at December 31, 2003 and 2002
(in thousands of Canadian dollars)

	2003	2002
Segregated fund assets consist of:		
Cash and short-term investments	$ 1,119,599	$ 919,336
Bonds	1,044,945	980,631
Mortgages	409	430
Equities	2,796,514	2,413,023
Units of other funds	963,835	868,537
	$ 5,925,302	$ 5,181,957

See accompanying notes to financial statements

Notes to Consolidated Financial Statements



The Maritime Life Assurance Company (the "Company") is continued under the Insurance Companies Act. *It operates in the Canadian financial services industry and operations cover the development and marketing of individual life and health insurance including living benefits, investment products, pensions, institutional annuities and group life and health products and services.*

The Company is subject to regulation by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Under regulations and guidelines prescribed by OSFI, the Company is required to maintain prescribed levels of capital that are dependent on the type and amount of insurance policies in force and the nature of the Company's assets. The Company currently exceeds these minimum capital requirements. OSFI governs the distribution of the Company's earnings through monitoring of adherence to prescribed capital requirements.

1. Significant accounting policies and basis of presentation

The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to generally accepted accounting principles.

Basis of presentation

These consolidated financial statements have been prepared in accordance with Subsection 331(4) of the *Insurance Companies Act* which states that, except as otherwise specified by OSFI, the financial statements are to be prepared in accordance with generally accepted accounting principles and include the accounts of its wholly owned subsidiaries Landex Properties Ltd., and, in the comparative period, Royal & Sun Alliance Life Insurance Company of Canada ("RSAF"). RSAF and the Company were amalgamated on January 1, 2003 to carry on operations as The Maritime Life Assurance Company.

Bonds and mortgages

Bonds and mortgages are carried at amortized cost, net of any allowance for losses. The difference between the proceeds on the sale of a security and its amortized cost is considered to be an adjustment of future portfolio yield and is deferred on the balance sheet and amortized to income over the remaining term to maturity.

The Company ceases to accrue interest on loans that are three months or more in arrears and considers these

loans to be impaired as well as any loans that are deemed by management to be non-performing. Events and conditions considered in determining the charge to income during the year relating to the allowance for loan impairment include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of the current economic conditions. Impaired loans are valued at an amount equal to the estimated net cash flows receivable, discounted at the effective interest rate inherent in the loan at the time of impairment. Any write-down is recognized immediately in income as a charge for loan impairment.

Upon restructuring, impaired loans are recorded at an amount equal to the net cash flows receivable under the modified terms, discounted at the effective interest rate inherent in the loan at the time it was initially recognized as being impaired. Any reduction in the recorded investment is recognized in income as a charge for loan impairment. When collection of the scheduled future cash flows is reasonably assured, interest income is recognized, using the above inherent effective interest rate.

Equities

The majority of the Company's equity holdings match equity-related investment options available with certain universal life insurance products. These holdings include groups of common stocks, index futures, index participation units and externally managed equity funds. These equity-related assets are accounted for on a market value basis in order to match the market value of the liability.

The remaining equities are carried at moving average market value whereby the carrying value is adjusted towards market value at 5% per quarter. Net realized gains and losses on the disposal of equities are deferred and amortized to income at 5% per quarter on a declining balance basis. A decline in market value of the portfolio of equities that is considered to be other than temporary is recognized immediately.

Real estate

Real estate held for investment, which includes own-use property, is carried at moving average market value whereby the carrying value is adjusted towards market value at 3% per quarter. Net realized gains and losses are deferred and amortized to income at 3% per quarter on a declining balance basis. Market values on each property are determined annually and an independent appraisal is obtained every three years. The market value established is an estimate of the realizable value of each property and thus recognizes in that determination an element of depreciation. A decline in market value of the portfolio of real estate that is considered to be other than temporary is recognized immediately.

Real estate acquired on foreclosure and held for sale is carried at the lower of the investment in the loan foreclosed and the estimated net proceeds from sale of the property. Real estate acquired on foreclosure and held for income production is initially recorded at the lower of the investment in the loan foreclosed and the fair value of the assets. Subsequently, foreclosures held for income production are accounted for as investments. For both classifications, write-downs are recognized immediately in income as a charge for loan impairment in the year.

Policy loans

Policy loans are carried at unpaid principal balances and are secured by the cash surrender values of the policies against which the respective loans were made.

Derivative financial instruments

The Company uses various derivative instruments to hedge and manage its exposure to changes in interest rate levels, foreign exchange rates, and equity market prices and to manage the duration of assets and liabilities.

In certain cases, the Company uses hedge accounting, in accordance with Section 1650 of the *Canadian Institute of Chartered Accountants' Handbook*, by designating derivative instruments as a hedge in accordance with its risk management objective and strategy. For derivatives that are designated and qualify as a hedge, changes in its

fair value or cash flows are netted against the changes in the fair value or cash flows of the underlying hedged item.

The Company enters into hedges of its foreign currency exposures on foreign currency denominated investments and intercompany debt by entering into currency swaps, currency futures, and forward exchange contracts when it is deemed appropriate.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency investments or debt are accrued under the respective invested asset or debt category on the balance sheet and recognized currently in net investment income or interest expense on the income statement, offsetting the respective translation gains or losses recognized on the underlying hedged item.

The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its floating rate invested assets and policy liabilities. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payment is based. The Company designates its interest rate hedge agreements as hedges of the underlying asset or liability. Interest income or expense is adjusted to include the payments made or received under the interest rate swaps.

Hedge effectiveness is assessed quarterly. If a hedge becomes ineffective, the hedge accounting described above ceases and the derivative instrument is recognized on the balance sheet at its fair value. Changes in the fair value of derivatives that are not hedges are included in net realized investment gains (losses) in the income statement.

Goodwill and other intangible assets

Intangible assets, other than goodwill, are recorded at their estimated fair value at time of acquisition. Intangible assets are amortized over their estimated useful lives except where there is an indefinite life, in which case, the intangible asset is included in goodwill. Goodwill represents the excess of cost over the fair value of the net assets, including identifiable intangible assets, at time of acquisition.

Intangible assets representing the present value of estimated future profits of insurance policies inforce are recorded as the value of business acquired (VOBA) and are included in other assets in the consolidated balance sheets. VOBA is amortized over the related policy lives, including estimated renewals. VOBA amortization expense is recognized each period in proportion to the change in the present value of expected gross profits related to the policies acquired.

Goodwill and intangible assets, including VOBA, are subject to an annual impairment review. Impaired goodwill or intangible assets will be charged to income in the year the impairment is identified.

Other assets

Other assets include furniture, equipment, leasehold improvements, software that are carried at cost less accumulated depreciation. Depreciation of these assets is provided on a straight-line basis over periods from three to ten years. Other assets also includes limited life intangible assets carried at amortized cost *(see goodwill and other intangible assets)*.

Policy liabilities

Policy liabilities have been calculated using the Canadian Asset Liability Method in accordance with the standards of the Canadian Institute of Actuaries ("CIA"). The process of calculating policy liabilities necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future investment losses, future expense levels and rates of surrender. Consequently, policy liabilities include appropriate provisions for adverse deviations from those estimates.

Revenue recognition

Premiums from participating and non-participating individual life insurance and annuity policies are recognized as income when due. Premium and administration fees for Group life and health contracts are recognized over the period services are rendered. Investment management fees are calculated daily for assets under administration based on their closing

market values. Administration fees for pension contracts are calculated monthly based on the number of members in the plan. Investment advisory and service fees are recognized as revenue when services are performed. Commissions related to security transactions are recognized as income on the trade date.

Foreign currency translation

The assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rates prevailing during the year. Translation gains and losses are recognized in the income statement.

Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under this method, current income taxes are based on taxable income and future income taxes are based on temporary differences between the tax basis and book basis of assets and liabilities. The income tax rates used to measure income tax assets and liabilities are those rates substantively enacted at the balance sheet date. A valuation allowance is established for future tax assets when it is more likely than not that an amount will not be realized.

Pension expense and obligation

The Company provides certain pension and other future post-employment benefits to eligible participants upon retirement. These benefits are provided on both defined benefit and defined contribution bases and reflect compensation history, length of service and level of contributions. The cost of defined benefits is actuarially determined and accrued using the projected benefit method pro-rated on service. This method involves the use of management's best estimates concerning such factors as expected plan investment performance, future salary increases, retirement ages of plan members and expected health care costs. These costs are recognized in the consolidated statement of income in the period during which the services are rendered. Plan assets are carried at market values. The assets supporting the pension benefits are held in separate trusteed pension funds.

The estimated excess of the market value of plan assets over retirement obligations, including adjustments arising from plan amendments and changes in valuation assumptions, is included in income over the estimated average remaining service lives of participants. The excess of the net actuarial gain (loss) over 5% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the remaining service period of active participants.

The cumulative difference between the pension expense and the funding contributions for the pension benefits is recorded in the consolidated balance sheet under other assets. The accumulated value of other employee future benefits is recorded in the consolidated balance sheet as other liabilities.

Segregated fund assets

Certain policy contracts allow the policyholder to invest in segregated investment funds of the Company. The assets of these funds are carried at their year-end market values. The income for these funds includes all realized and unrealized gains and losses, net of related expenses and is included in the value of the fund. Substantially all risks and rewards of ownership accrue to these policyholders; consequently, assets held in segregated fund accounts are not consolidated with the assets of the Company. Cash flows associated with premiums and surrenders of segregated fund policies are initially recorded in the general account and then transferred to or from the segregated account on a net basis so that the segregated accounts business is maintained separately from the general account business.

The Company provides certain minimum maturity and death benefit guarantees on individual variable annuity contracts which have invested in segregated investment funds. The liability associated with these guarantees is included with the policy liabilities *(see note 9)*.

2. Changes in accounting policies

Stock-based compensation

The Company has adopted Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", of the *CICA Handbook* effective January 1, 2002. The new standard requires that all compensatory awards, including stock appreciation rights, be measured using the fair value method at the grant date and recognized as compensation expense over the service period. The impact of this change was not material to these consolidated financial statements.

Hedging relationships

In November 2001, the CICA issued "Accounting Guideline 13, Hedging Relationships", effective for fiscal years beginning on or after July 1, 2003, which requires the identification, documentation, designation and determination of effectiveness of a hedging relationship to apply hedge accounting. The new guideline also outlines conditions whereby hedge accounting for hedging relationships established in prior periods can be continued.

3. Acquisition and goodwill and intangible assets

On July 8, 2003, the Company completed its assumption of the insurance business of Liberty Health, the Canadian division of US-based Liberty Mutual Insurance Company. The Liberty Health business is composed of two businesses—a group insurance business (life, disability and health) and an individual health insurance business. The group business supplements that of the Group Life & Health segment, resulting in the Company being one of the top three group insurance providers in Canada. The individual health insurance business complements the existing individual disability business within the Retail Protection segment.

The transaction was completed as an assumption reinsurance agreement whereby all policy obligations of Liberty Health have been transferred to the Company in exchange for a reinsurance ceding allowance of US $97,500. To assist in the financing of this ceding allowance, the Company received additional equity of US $60,000 from its parent company. The Company had entered into certain foreign exchange hedging instruments to partially eliminate risk of currency fluctuations on the US dollar ceding allowance. The final value of the reinsurance ceding allowance is Cdn. $140,087. Costs associated with the acquisition in the amount of $1,050 have been incurred and are capitalized.

The transaction was effective commencing July 1, 2003 and accordingly, the results of operations and changes in financial position have been recorded in these consolidated financial statements since that date.

The agreement contains a sixty day period for final adjustment of transferred assets and non-policy liabilities and a ninety day period for the policy liabilities, the latter subject to an independent External Actuary's opinion. Proposed adjustments are subject to defined arbitration procedures. The agreement also contains an eighteen-month adjustment provision should there be any shortfall in certain predefined premium amounts in 2002 and 2003 that have not been or will not be met.

The transaction has been accounted for under the purchase method of accounting. Accordingly, assumed assets and liabilities have been adjusted to their estimated fair values at the acquisition date of July 1, 2003. The difference between the reinsurance ceding allowance paid and the net fair value of tangible assets, identifiable intangible assets and liabilities assumed has been recorded as goodwill, as shown in the following table.

Acquisition and goodwill and intangible assets

Purchase price	$ 140,087
Acquisition costs	1,050
Net purchase cost	$ 141,137
Allocated as follows:	
Tangible assets	$ 301,939
Identifiable intangible assets—value of business acquired *(note 6)*	39,900
Liabilities acquired	(279,641)
Goodwill	78,939
	$ 141,137

The fair value of liabilities acquired includes accrued severance costs of $5,850, as well as capitalized planned integration and restructuring costs of $3,190. The value of goodwill is subject to change arising from settlement or arbitration of certain accounting and actuarial valuation adjustments.

Goodwill

The continuity of goodwill during the year was as follows:

2003	Retail Protection	Asset Gathering	Group Life & Health	Total
Balance, beginning of year	$ 114,565	$ 49,177	$ 70,300	$ 234,042
Acquired during the year	38,579	–	40,360	78,939
Balance, end of year	$ 153,144	$ 49,177	$ 110,660	$ 312,981

2002	Retail Protection	Asset Gathering	Group Life & Health	Total
Balance, beginning of year	$ 114,565	$ 49,177	$ 70,300	$ 234,042
Acquired during the year	–	–	–	–
Balance, end of year	$ 114,565	$ 49,177	$ 70,300	$ 234,042

4. Invested assets and fair values

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties under no compulsion to act. Although quoted market values are a good source of fair value, not all financial instruments have an available trading market. In addition, fair value refers to value at a point in time and is not indicative of future value.

The Company's business involves the exchange of financial instruments. A financial instrument is defined as any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party. A basic function of the business is to match assets with liabilities to be able to meet the long-term obligations to policyholders.

The fair values of the policy liabilities cannot practicably be determined. To the extent that invested assets are accurately matched to policy liabilities, changes in the fair values of the assets due to interest rate changes will have a similar effect on the policy liabilities and will not affect future corporate earnings. The assets supporting the policy liabilities have a fair value of $9,267,554 (2002 – $7,695,553). In addition, deferred net gains of $51,850 (2002 – $40,058) have been taken into account in the determination of policy liabilities. Details of significant terms and conditions, exposures to interest rate and credit risks on policy liabilities are discussed in note 9.

The following indicates the fair value and the carrying value of the Company's invested assets at December 31. Although real estate is not a financial instrument, it has been included in the table for completeness. For derivatives, see note 7. The fair values shown are not indicative of the overall fair value of the Company.

Asset valuation

The fair values of short-term investments are estimated to be carrying value due to the nature of these assets. Fair values of bonds and equities are derived from available quoted sources where a ready market exists.

The fair values of mortgages and private placement bonds and equities are calculated by discounting scheduled cash flows through the estimated maturity, using market discount rates. Fair values for real estate are based on the most recent independent appraisal available *(see note 1)*.

	2003		2002	
	Fair Value	Carrying Value	Fair Value	Carrying Value
ASSETS				
Bonds				
– government	$ 2,336,259	$ 2,068,875	$ 1,938,533	$ 1,734,134
– public	2,429,209	2,290,819	2,005,873	1,925,796
– private placements	1,388,928	1,256,518	1,259,277	1,129,035
Mortgages				
– government insured	1,442,689	1,361,740	1,179,377	1,142,511
– commercial	1,123,050	1,060,036	1,017,916	986,098
– multi-residential	246,221	232,406	232,389	225,125
Equities				
– preferred	307,745	292,380	313,430	314,770
– common	146,909	135,227	109,402	107,364
– private placements	47,381	44,291	46,638	42,396
– other	572,468	571,964	454,379	455,329
Real estate				
– foreclosed	–	–	306	306
– investment	145,031	136,730	151,066	140,689
Short-term investments	392,123	392,123	304,890	304,890

Short-term investments

These investments have an aggregate amount of $392,123 (2002 – $304,890) with effective interest rates of 0.98% to 2.88% (2002 – 1.27% to 3.31%). Interest is calculated daily and receivable at maturity or on disposition.

Bonds

Interest is calculated daily and paid semi-annually on government and public bonds. Private placement bonds have interest calculated and paid according to specific contracts. Exposure to credit risk is managed primarily through compliance with quality rating, maximum single issuer guidelines and industry exposure guidelines.

	2003		2002	
	Effective Rates	Carrying Value	Effective Rates	Carrying Value
Government	5.43%	$ 2,068,875	5.60%	$ 1,734,134
Corporate	4.95%	3,547,337	5.60%	3,054,831

The term to maturity for bond investments, which generally match estimated liability maturities, are as follows:

	2003		2002	
Term to Maturity	Fair Value	Carrying Value	Fair Value	Carrying Value
Current	$ 290,171	$ 287,581	$ 287,184	$ 277,592
1–5 years	1,256,297	1,222,211	1,074,425	1,040,378
6–10 years	924,716	857,475	780,586	742,131
Over 10 years	3,683,212	3,248,945	3,061,488	2,728,864
	$ 6,154,396	$ 5,616,212	$ 5,203,683	$ 4,788,965

Mortgages

Interest is generally calculated monthly. Credit risk is managed through a program of diversification of type and location of properties, maximum single borrower guidelines and regular borrower and appraisal reviews.

	2003			2002		
	Carrying Amount	Effective Interest Rates	Average Maturity (years)	Carrying Amount	Effective Interest Rates	Average Maturity (years)
Government insured	$ 1,361,740	6.34%	8.66	$ 1,142,511	6.57%	7.92
Commercial	1,060,035	7.25%	7.13	986,098	6.92%	7.13
Multi-residential	232,406	6.73%	5.83	225,125	7.48%	5.77
	$ 2,654,181			$ 2,353,734		

Mortgages are secured primarily by first recourse to the underlying property and virtually all are fixed term in duration.

5. Impaired investments

Investments classified as non-performing are as follows:

	2003			2002		
	Book Value	Allowance for Loan Impairment	Carrying Value	Book Value	Allowance for Loan Impairment	Amount Value
Commercial mortgages	$ 4,130	$ (398)	$ 3,732	$ 5,936	$ (578)	$ 5,358
Bonds	21,200	(7,901)	13,299	21,796	(7,789)	14,007
	$ 25,330	$ (8,299)	$ 17,031	$ 27,732	$ (8,367)	$ 19,365

In addition, the policy liabilities include provisions for potential future asset default losses *(see note 9)*.

The continuity of the allowance for loan impairment during the year was as follows:

	2003	2002
Balance, beginning of year	$ 8,367	$ 5,227
Provision for loan impairment	3,520	4,352
Reduction due to dispositions	(3,588)	(1,429)
Net write-offs (recoveries) of loans	–	217
Balance, end of year	$ 8,299	$ 8,367

6. Other assets

At December 31, other assets consist of:

	2003	2002
Furniture and equipment	$ 179,785	$ 123,916
Leasehold improvements	5,947	3,603
Internal use software development	59,922	41,810
Intangible assets *(note 3)*	45,900	6,000
Less: accumulated depreciation and amortization	(165,443)	(108,689)
	$ 126,111	$ 66,640
Advances to segregated funds	17,224	17,795
Deferred pension costs *(note 22)*	17,424	20,496
Current income taxes recoverable	22,818	–
Administration services receivable	23,699	11,343
Recoverable deficits	9,870	14,140
Prepaid commissions	21,600	–
Due from parent company	40,089	–
Miscellaneous receivables	83,797	84,517
	$ 362,632	$ 214,931

The amount due from parent company consists of a promissory note in the amount of US $30,000, bearing interest quarterly at the 90 day LIBOR rate plus 0.5% and maturing on July 2, 2008.

Intangible assets consist of:

	Gross Carrying Amount	Accumulated Amortization
Value of business acquired (VOBA)	$ 39,900	$ 1,550
Investment management contract	6,000	2,250
	$ 45,900	$ 3,800

Additions acquired in 2003 were $39,900 *(see note 3)*.

VOBA is amortized in proportion to the change in present value of the estimated gross profits of the related insurance policies. The investment management contract is amortized on a straight-line basis over its six-year term. Amortization expense recorded during the year was $2,550 (2002 – $1,000).

7. Derivative financial instruments

The Company uses derivative financial instruments where appropriate in the administration of its asset/liability management strategies and to assist in the management of financial risks, including interest rate, credit and foreign exchange risks. All of the Company's derivative financial instruments are held for hedging purposes, not for speculation.

The notional principal amount of derivative instruments represents an amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional principal amounts are frequently used as an indicator of business activity, however, they are not indicative of credit or market risk exposure and are not recognized in the financial statements. The following table classifies, by type, the notional principal amounts held at year-end:

	2003		2002	
Term to Maturity	OTC*	Exchange	OTC*	Exchange
Interest rate contracts:				
Swaps	$ 1,185,447	$ –	$ 760,583	$ –
Foreign exchange contracts:				
Swaps	620,200	–	440,383	–
Forward rate agreements	147,366	–	104,333	–
Credit default swaps	50,772	–	–	–
Equity contracts	8,000	26,703	8,000	21,470
	$ 2,011,785	$ 26,703	$ 1,313,299	$ 21,470

**"Over-the-counter"*

The notional principal amounts by remaining term to maturity are:

	Remaining Term to Maturity at December 31, 2003				2003 Total Notional Amount	2002 Total Notional Amount
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years		
Interest rate contracts	$ 146,024	$ 572,082	$ 154,607	$ 312,734	$ 1,185,447	$ 760,583
Foreign exchange contracts	297,366	440,437	15,049	14,714	767,566	544,716
Credit default swaps	–	50,772	–	–	50,772	–
Equity contracts	34,703	–	–	–	34,703	29,470
	$ 478,093	$ 1,063,291	$ 169,656	$ 327,448	$ 2,038,488	$ 1,334,769

Credit exposure

Credit risk is the exposure to loss in the event of non-performance by the counterparty to the transaction. The Company evaluates and monitors the credit risk of its derivative financial instruments, in much the same way as the credit risks associated with its other financial instruments. All of the counterparties for the Company's OTC derivative activities are financial institutions rated AA(L) or above by independent rating agencies.

The following tables provide a summary of the Company's derivative portfolio and related credit risk exposure. "Current credit risk" represents the amount of loss that the Company would suffer if every counterparty to which the Company is exposed defaulted immediately (i.e. the current replacement cost of all outstanding derivative contracts with a gain or positive value). These amounts do not take into consideration legal contracts that permit offsetting of positions or the value of any collateral. "Credit equivalent" amount represents the current credit risk exposure plus an estimate of the impact that future changes in interest and foreign currency rates and other indices would have, based upon a formula prescribed by OSFI. "Risk-weighted equivalent" represents the credit risk equivalent weighted according to the creditworthiness of the counterparty, also as prescribed by OSFI.

2003	Notional Amounts	Current Credit Risk	Credit Equivalent Amount	Risk Weighted Equivalent
Interest rate contracts	$ 1,185,447	$ 17,051	$ 14,785	$ 237
Foreign exchange contracts	767,566	75,682	101,054	1,617
Credit default swaps	50,772	–	–	–
Equity contracts	34,703	2,422	2,301	37
	$ 2,038,488	$ 95,155	$ 118,140	$ 1,891

2002	Notional Amounts	Current Credit Risk	Credit Equivalent Amount	Risk Weighted Equivalent
Interest rate contracts	$ 760,583	$ 12,473	$ 3,426	$ 79
Foreign exchange contracts	544,716	4,740	8,663	200
Credit default swaps	–	–	–	–
Equity contracts	29,470	924	1,504	24
	$ 1,334,769	$ 18,137	$ 13,593	$ 303

The next table summarizes the fair value, as represented by the sum of the net unrealized gains and losses, accrued interest receivable and payable and premiums paid or received, of the Company's derivative portfolio at each year end. It segregates derivative instruments between those that are in a favourable or receivable position from those in an unfavourable or payable position. Fair value is verified to external sources and is defined as the net present value of expected future cash flows of all contracts discounted at a market rate commensurate with the risks involved.

	2003			2002		
	Favourable	(Unfavourable)	Net Fair Value	Favourable	(Unfavourable)	Net Fair Value
Interest rate contracts	$ 17,051	$ (21,983)	$ (4,932)	$ 12,473	$ (36,085)	$ (23,612)
Foreign exchange contracts	75,682	(8)	75,674	4,740	(14,975)	(10,235)
Credit default swaps	–	(697)	(697)	–	–	–
Equity contracts	2,422	–	2,422	924	(610)	314
	$ 95,155	$ (22,688)	$ 72,467	$ 18,137	$ (51,670)	$ (33,533)

8. Mortgage securitization

The Company has sold for cash, without recourse, undivided interests in pools of mortgages insured under the *National Housing Act* by the Government of Canada. Gains or losses on the sale of the mortgages are amortized to income over the life of the underlying mortgage pools and are recognized within net investment income.

The Company retains the servicing right for these pools of mortgages that had outstanding principal balances of $161,056 (2002 – $188,447) at December 31. Servicing fee income, net of expenses, is recognized as earned and recorded within net investment income.

9. Policy liabilities

a) Nature and composition

Policy liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, policy dividends and expenses on policies in force at the valuation date. Policy liabilities are determined using accepted actuarial practice, according to standards established by the CIA.

The Company's reporting segments are described in note 26. The composition of the policy liabilities, net of reinsurance *(see note 10)* and the assets backing them by segment are as follows:

2003	Retail Protection	Asset Gathering	Group Life & Health	Total
Participating policies	$ 821,675	$ 2,164	$ –	$ 823,839
Non-participating policies	3,507,784	2,400,044	1,873,547	7,781,375
Total policy liabilities	$ 4,329,459	$ 2,402,208	$ 1,873,547	$ 8,605,214
Assets backing liabilities:				
Bonds	$ 2,791,071	$ 1,352,348	$ 966,602	$ 5,110,021
Mortgages	916,162	811,463	786,841	2,514,466
Equities	657,380	4,582	–	661,962
Other	(35,154)	233,815	120,104	318,765
	$ 4,329,459	$ 2,402,208	$ 1,873,547	$ 8,605,214

2002	Retail Protection	Asset Gathering	Group Life & Health	Total
Participating policies	$ 813,101	$ 2,445	$ –	$ 815,546
Non-participating policies	3,033,544	2,151,436	1,235,553	6,420,533
Total policy liabilities	$ 3,846,645	$ 2,153,881	$ 1,235,553	$ 7,236,079
Assets backing liabilities:				
Bonds	$ 2,355,510	$ 1,325,484	$ 580,076	$ 4,261,070
Mortgages	817,144	826,046	618,221	2,261,411
Equities	503,185	7,334	–	510,519
Other	170,806	(4,983)	37,256	203,079
	$ 3,846,645	$ 2,153,881	$ 1,235,553	$ 7,236,079

b) *Assumptions*

The Company provides financial security products and must measure and manage risk. This is reflected in the valuation of policy liabilities. In light of the long-term risks and measurement uncertainties inherent in the life insurance business, policy liabilities are established using "best estimate" assumptions plus a margin for adverse deviation, separately for each variable. If emerging experience is less favourable than assumed in the valuation, profits would diminish and losses could result.

"Best estimate" assumptions cover mortality, morbidity, investment returns, rates of policy terminations (lapses), levels of operating expenses, and policyholder dividends. The methods for arriving at the most important of these assumptions are outlined below.

Mortality

For individual life insurance, the Company monitors its mortality on a regular basis and compares the results to the Canadian industry study conducted annually by the CIA. The valuation mortality assumption has been derived from a combination of the Company's experience and industry experience. Although mortality improvements have been observed for many years, no future improvements have been assumed for life insurance valuation.

For annuities, the mortality rates in the industry tables are projected forward to the year of each future annuity payment to allow for continuing mortality improvement. This is an appropriately conservative adjustment to make in valuing annuities—it extends the assumed payment period which produces a larger policy liability.

Morbidity

The Company underwrites disability income, disability waiver of premium and other living benefits. The Company's exposures to morbidity risk arise from the possibilities that the incidence of claims is greater or earlier than expected and, where relevant, claim terminations from death or recovery occur less frequently than expected.

The Company uses a combination of industry tables and its own recent experience in setting its best estimate claims incidence and termination.

Investment returns

The Company maintains notional asset portfolios matching specific segments of policy liabilities. This allows management to monitor and assess the success of the various investment strategies being employed. All assets in the Company's general fund are available to pay all liabilities of the general fund, with first preference to policy liabilities.

The Company has an Investment Policy Statement ("IPS") which, coupled with the Investment Operating Guidelines ("IOG"), articulate prudent person practices for its lending and portfolio management—practices a prudent person would apply to avoid undue risk of loss and to obtain a reasonable rate of return. The IPS is approved by the Board of Directors and is subject to annual review. The IOG are approved by the Investment Committee of the Board. These documents outline governance with respect to exposure limits, credit quality, interest rate risk and liquidity. The valuation of policy liabilities makes explicit provision for credit risk and interest rate risk.

i) Credit risk

The Company has made provision in its financial statements for credit losses expected for assets it currently holds. Provisions have been made partly through reduction in the value of specific assets judged to be impaired and partly through a provision in the policy liabilities. The best estimate assumptions take into account current quality ratings for all investments, credit analysis, quality deterioration (ratings drift) and economic indicators that are considered linked to credit risk that may be cyclical.

The Company reviews its own experience and published credit loss studies to develop and maintain best estimate long term credit loss allowances for each distinct asset credit class. The policy liabilities produced using these allowances may be supplemented if credit analysis, economic trends or business plan forecasts indicate that credit losses are likely to be higher, in the near term, than the average of the long term allowances.

Actual credit losses were lower than best estimate losses assumed in the valuation of policy liabilities in each of the last four years.

The policy liabilities would increase by 1.09% (2002 – 1.10%) if the long-term credit loss assumption was increased to 150% of the assumption used.

ii) Interest rate risk

The Company's financial position may be affected by its exposure to interest rate risk. Interest rate risk is the risk of economic losses or gains arising from the reinvestment or disinvestment of cash flows. If the assets supporting the policy liabilities do not match the timing and amount of the policy obligations, interest rate losses or gains may occur due to changing interest rates in the future. The Company has an asset/liability management program that is designed to meet its Board-approved risk management objectives.

Under the Canadian Asset Liability Method ("CALM") of the CIA, interest rate risk for each broad product class is assessed under an appropriately chosen variety of future economic scenarios. The selection of the scenarios tested is guided by standards, portfolio-specific attributes and judgment. In selecting the scenarios, the objective is to determine a provision for interest rate risk that is sufficient without being excessive. For each scenario and class, the analysis determines the pool of existing assets which, when combined with assumed future reinvestments or disinvestments of projected net cash

flows at rates defined by the scenario, is sufficient to discharge the liability cash flows. The provision for interest rate risk is then determined based on the retained scenario, which requires the largest pool of existing assets (i.e. the worst case scenario).

The asset gathering segment is most sensitive to immediate changes in interest rates. For this segment, asset and liability cash flows are closely matched by term and duration so the reinvestment assumption is relatively unimportant. The objective is to maintain asset durations within 10% of liability durations for this segment. At December 31, 2003, these segments are adversely exposed to decreases in interest rates despite the assets being slightly longer than the liabilities. For these policy liabilities, the difference between the scenario assuming a 1% decrease (2002 – 1% increase) in interest rates at all points along the yield curve and the scenario assuming the current yield curve forever is $3,400 (2002 – $800) or 0.15% (2002 – 0.03%) of the policy liabilities reported.

For guaranteed non-participating insurance, benefit payments are typically later than asset cash flows, which means that reinvestment assumptions are important to the valuation of this class of business. This exposure is reflected in the valuation of the policy liabilities by assuming declining long-term interest rates. Projected policy cash flows and invested assets' cash flows are combined with the future assumed reinvestment rates and the Company's investment policy to determine the policy liability.

For adjustable product types, including deferred annuities, certain forms of universal life, participating policies and some group contracts, the effect of changes in interest rates will be passed through to policyholders in the form of changes in dividend scales or premium adjustments or credited rates in accordance with the policy terms. These pass-through features significantly reduce the Company's exposure to interest rate risk.

The Company offers some universal life policyholders the opportunity to invest in equity-related investment options. These investment accounts are closely matched using various equity instruments—actual common stocks, equity futures or exchange-traded unit trusts.

iii) Product performance guarantees

The Company guarantees minimum rates of return with respect to the savings elements of adjustable and universal life insurance policies. These guarantees create a cost to the Company (are "in the money") whenever its investment strategy produces a return which is less than the sum of the guaranteed minimum returns payable to customers and its investment spread related costs. Some of the Company's outstanding guarantees were "in the money" at December 31, 2003. Guarantees for recent and future new issues have been revised so that the Company's future exposure will largely be limited to an existing closed block of inforce policies. The valuation of policy liabilities assumes "in the money" situations persist and incorporates a margin for future deterioration.

For segregated funds, the Company guarantees minimum proceeds on the maturity date of the policy or on the earlier death of the annuitant. These guarantees exceed those that the Company must provide as defined by regulations. The Company regularly monitors its exposure to these guarantees and measures their costs under a wide range of future fund performance scenarios (both randomly generated and predefined). The key risk to which the Company is exposed is very poor fund(s) performance combined with uncharacteristically good persistency. The product design and marketing focus have produced a widely dispersed maturity date profile for the inforce business that provides important diversification and risk mitigation. The policy liabilities include an amount for these guarantees. The method of determining this amount conforms with the approach described in guidance material published by the CIA.

Lapses

Lapse and surrender assumptions are important in valuing individual life insurance because the surrender value of a policy (Cash Surrender Value) can often be

quite different than the value of future benefits to be derived by continuing the policy in force. This is most evident with a pure "Term to 100" policy which has no cash surrender value but has inherent increasing value as the policy ages because the premium is fixed based on the issue age. Such a policy is often referred to as lapse-supported.

The Company derives lapse and surrender assumptions mainly from internal studies, in combination with meaningful inter-company studies where available, adjusted for consistency with the future expected economic and mortality environment described above. Separate lapse assumptions are used for permanent cash value business, for renewable term insurance and for lapse-supported business.

The Company has a portfolio of lapse-supported non-participating life policies, which account for $2,798,000 (2002 – $2,301,000) of policy liabilities. As an indication of the sensitivity of these policy liabilities to the future assumed lapse rates, the lapse component of the Minimum Continuing Capital and Surplus Requirement regulatory capital calculation attributable to these policies is $48,000 (2002 – $47,000). This component is determined by recalculating the policy liabilities using more conservative lapse rates, with the change in lapse rates being twice as great for fully guaranteed policies than for adjustable ones.

Policy expenses

The policy liabilities provide for future maintenance expenses, claims adjudication expenses, premium tax, investment income tax, other taxes not integrated with income taxes, reinsurance costs, and renewal commissions to agents.

Policy maintenance expenses are derived from the Company's internal cost allocation studies with no material allowance for anticipated future productivity gains. Expense savings are only recognized after they are realized and demonstrated to be of a permanent nature. Future unit cost rates are assumed to increase with inflation in determining the policy liabilities.

Future income taxes

The Company is required to comply with the standards of both the CIA and the CICA in determining the impact of income taxes. Actuarial standards require that the projected timing of all cash flows associated with the policy liabilities, including income taxes, be included in the determination of the policy liabilities under the Canadian Asset Liability Method.

The policy liabilities are first determined recognizing all related tax effects on a discounted basis, including temporary differences that have already occurred and will reverse in the future and future differences that are projected to occur, both temporary and permanent. Future income tax assets and/or liabilities arising from temporary differences that have already occurred are then computed without discounting. This undiscounted amount is then reclassified from the actuarial liabilities to future income taxes on the balance sheet.

Policyholder dividends

Policy liabilities for participating insurance include the present value of future policyholder dividends. Dividend scales are consistent with the Company's dividend policy, and are assumed to adjust in a manner consistent with future experience assumed.

Margins for adverse deviations

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. Companies are required to include a margin in each assumption which increases the policy liability otherwise produced to recognize the uncertainty in establishing these best estimates and to allow for the possible deterioration in experience. A range of allowable margins is prescribed by the CIA. The choice of the margin from this range, characterized as low to high margins, is based on consideration of a number of factors specific to the assumption including: credibility of experience studies, sophistication of the Company's measurement and reaction processes, degree of risk-sharing with the policyholder (i.e. adjustment provisions) and the term of the contract, to name a few. The

Company generally maintains margins near the middle of the allowable ranges except where the risk is significantly shared with the policyholder, in which case a lower margin is used.

c) Changes in provision for future policy benefits

Changes in the provision for future policy benefits during the year were caused by the following business activities and changes in actuarial assumptions:

	2003	2002
Balance, beginning of year	$ 6,680,793	$ 6,009,214
Normal changes due to:		
– new policies	366,124	505,968
– inforce policies	553,521	225,534
Assumption of Liberty Health *(note 3)*	226,693	–
Mark-to-market liability swap impact (Institutional Annuities)	(68,025)	(2,780)
Reinsurance recapture	304,063	–
Reclassifications among policy liability categories	–	8,227
Changes in actuarial assumptions and refinements of estimates		
– non-participating	(7,760)	(63,250)
– participating	(17,000)	(2,120)
Balance, end of year	$ 8,038,409	$ 6,680,793

Valuation assumptions are reviewed and updated annually based on emerging experience. For participating insurance, the changes in assumed future experience affect estimated future dividend amounts. This "flow-through" feature of participating insurance significantly reduces the impact of assumption changes on the policy liabilities.

For non-participating business, the impact of the major assumption changes and refinement of estimates is as follows:

	2003	2002
Assumed future interest rates	$ 12,140	$ (9,210)
Morbidity	(18,950)	(16,360)
Mortality	1,620	13,000
Lapse	34,880	29,420
Maintenance expenses	2,120	(3,450)
Modeling/data corrections	(24,570)	(12,980)
All other	(15,000)	(63,670)
	$ (7,760)	$ (63,250)

10. Reinsurance

The Company reinsures excess mortality, morbidity and lapse exposures on a life insured to limit its loss. It also has catastrophe reinsurance in place to limit the loss it incurs from multiple claims resulting from the same event. The Company's maximum retentions, established separately for individual life, living benefits, group life and group health, are subject to Board approval. Materially all of the reinsurance is ceded to federally registered reinsurance companies operating in Canada.

Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. A contingent liability exists should an

assuming company be unable to meet its obligations. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk with its reinsurers to minimize its exposure to losses from reinsurer insolvency.

The amounts shown in the financial statements are net of the following amounts relating to reinsurance ceded:

	2003	2002
Provision for future policy benefits	$ 1,306,688	$ 1,684,663
Premiums	387,089	459,267
Policy benefits	260,927	266,644
Commissions and operating expenses	54,793	66,101

11. Notes payable to reinsurers

The Company has issued notes payable to reinsurers that bear interest at a rate equal to the rate of return on a specified portfolio of assets. At December 31, 2003, the outstanding balance owing under these notes was $94,105 (2002 – $94,112).

12. Deferred net gains

Deferred net gains (losses) on disposal of invested assets is comprised of the following:

	2003	2002
Bonds	$ 52,040	$ 40,742
Mortgages	6,068	2,037
Equities	(560)	7,896
Real estate	1,248	(1,493)
	$ 58,796	$ 49,182

13. Other liabilities

At December 31, other liabilities consist of:

	2003	2002
Accounts payable and accrued liabilities	$ 188,223	$ 191,734
Outstanding cheques	38,617	21,887
Administration services payables	89,635	39,198
Post-retirement benefits *(note 22)*	16,111	11,013
Mortgages payable	6,345	7,390
Taxes, licenses, fees payable	8,464	33,837
Accrued interest on subordinated debt	4,851	4,851
Miscellaneous	24,843	24,433
	$ 377,089	$ 334,343

The amounts included in mortgages payable represent charges on real estate that are repayable in terms to the year 2006 and bear interest at 6.51% per annum. The payments required to meet mortgage obligations are as follows: 2004 – $1,150; 2005 – $1,150. Interest expense for the year ended December 31, 2003 was $597 (2002 – $514). The fair value of the mortgages payable was calculated by discounting scheduled repayments at current market rates and was estimated to be $6,790 (2002 – $7,495).

14. Subordinated debt

The Company has financed some of its operations through the issue of subordinated debt to its parent, John Hancock Canadian Holdings Limited. The debt is subordinated in right of payment to all policy liabilities of the Company and all other liabilities except those that, by their terms, rank equally with or subordinate to this debt and cannot be repaid without OSFI approval. The debt consists of the following:

Maturity	Interest Rate	2003	2002
October 15, 2007	7.50%	$ 70,000	$ 70,000
July 30, 2014	6.81%	20,000	20,000
October 1, 2014	7.19%	86,000	86,000
April 30, 2016	7.14%	20,000	20,000
September 27, 2016	6.88%	55,000	55,000
October 2, 2016	6.88%	25,000	25,000
		276,000	276,000

The interest is payable semi-annually and total interest expense of $19,727 (2002 – $19,874) related to this debt is included in the statements of income. The fair value of the subordinated debt was calculated by discounting scheduled repayments at current market rates and was estimated to be $293,473 (2002 – $291,743).

15. Distribution of income

Distributions of income to shareholders and to participating policyholders are established by resolutions of the Board of Directors. From time to time, the Board of Directors sets apart a portion of the income of the participating account as safe and proper for distribution as dividends or bonuses. Of the amount set apart, the shareholders are entitled to a portion as specified in the governing statute. The amount eligible for future transfer to shareholders can be transferred only when further dividends are paid to participating policyholders. The cumulative amount eligible for future transfer of $6,398 at December 31, 2003 (2002 – $5,433) is included in the participating account.

The Company has made a commitment to declare dividends in respect of the former Maritime Life and former Aetna Canada participating policies for a five year period at a scale not less than the scale in effect in respect of those policies' anniversaries in 1999, provided that the relevant demographic and economic conditions remain the same as in 1999. Commitments made in respect of dividends for a previously acquired block of participating policies will be honoured by the Company.

Upon amalgamation of the Company and RSAF, the Company further committed to respect preexisting commitments of dividend scales, including those pertaining to a block of policies acquired by RSAF in 1997. Prior to amalgamation, RSAF reduced the dividend scales of its participating policies to ensure that the RSAF participating fund was self-sustaining. If post-amalgamation experience indicates

that further dividend scale reductions are required, the Company has committed to maintain current dividend scales at no less than 80% in aggregate during the five years following amalgamation, except to reflect deterioration in future realized experience, and no reduction will occur while any prior dividend commitment is in effect.

As at December 31, the cumulative amount of $83,448 (2002 – $69,837) of the participating account has been allocated to participating policyholders but has not yet been distributed by way of declared dividends.

16. Share capital

		2003	2002
Authorized:			
3,960,000	first preferred shares issuable in series		
4,000,000	second preferred shares, Series 1		
4,000,000	second preferred shares, Series 2		
4,000,000	second preferred shares, Series 3		
5,000,000	common shares		
Issued:			
1,400,000	first preferred shares, series A	35,000	35,000
4,000,000	second preferred shares, Series 1	97,106	97,106
4,000,000	second preferred shares, Series 3	96,796	96,796
350,175	common shares	53,745	53,745
		$ 282,647	$ 282,647

The First Preferred Shares, Series A are non-voting, bear cumulative dividends at a rate equal to one-quarter of 72% of the prime rate in effect on each day during the three calendar months ending on the last day of the calendar month preceding the month in which the dividend payment is to be made and are redeemable at the election of the Company at their par value of $25.00 per share.

The Second Preferred Shares are non-voting and ranking on a parity with the First Preferred Shares and in preference to the common shares.

The Series 1 Second Preferred Shares bear non-cumulative dividends at a fixed rate of 6.1%, payable quarterly until December 31, 2004 whereupon the dividend rate will be the greater of: (i) one-quarter of 90% of the average daily prime rate charged by two Schedule 1 Canadian chartered banks for that quarter, and (ii) 5.85% per annum, prorated for the quarter. The Series 1 Second Preferred Shares are redeemable at the Company's option on December 31, 2004 and every five years plus one day thereafter at a price of $25.00 per share or at any other time after December 31, 2004 at $25.50 per share. Also on December 31, 2004 and every five years plus one day thereafter the Series 1 Second Preferred Shares are convertible at the holder's option into an equal number of Series 2 Second Preferred Shares, subject to a minimum number of shares remaining in the series.

The Series 2 Second Preferred Shares generally have the same provisions as the Series 1 Second Preferred Shares with the following exceptions. They bear fixed non-cumulative dividends at a rate equal to a selected percentage of the Government of Canada 5 year bond yield, as determined by the Board of Directors, payable quarterly. They are redeemable at the Company's option on January 1, 2010 and on each successive five years plus

one day anniversary thereafter. They are convertible by the holder on January 1, 2010 and on each five years plus one day thereafter into an equal number of Series 1 Second Preferred Shares, subject to a minimum number of shares remaining in the series.

The Series 3 Second Preferred Shares, issued on December 13, 2002, bear non-cumulative dividends at a fixed rate of 6.1%, payable quarterly. The Series 3 Second Preferred Shares are redeemable at the Company's option on or after December 31, 2007 at $26.00 per share, on or after December 31, 2008 at $25.75 per share, on or after December 31, 2009 at $25.50 per share, on or after December 31, 2010 at $25.25 per share and on or after December 31, 2011 at $25.00 per share.

17. Institutional annuities business

The Company has entered into agreements whereby the Company may issue annuity contracts to certain investment dealers. The annuity contracts are transferable such that the investment dealers must transfer the purchased annuities to a trust.

The trust, Maritime Life Canadian Funding, issues medium-term notes to fund the acquisition of the annuities. The trust is a third party qualifying special purpose vehicle whose sole purpose is limited to these activities and accordingly is not subject to consolidation by the Company. Non-consolidation does not remove any liabilities from the Company's balance sheet. The trust has completed one note issue for $200,000 of proceeds in 2003, and two note issues for an aggregate of $350,000 of proceeds during 2002, resulting in aggregate sales of $200,000 and $350,000 of annuities respectively by the Company.

The annuities are unsecured policy obligations of the Company. Under an elective early final payment option, the policyholder may designate an early final payment date should the Company fail to make any payment when due. In addition, the Company may elect an early final payment date should any change in tax law, regulation, rule or assessment practice occur. If an early termination of the annuity occurs, a final payment amount will be made to settle the annuity in full.

The Company is accounting for these annuities consistent with its existing annuity business in that premiums are recorded as revenue when received. The annuities form part of the policy liabilities for the Company and are subjected to actuarial valuation consistent with the Canadian Asset Liability Method in accordance with the standards of the CIA. The premiums received have been invested in US and foreign bonds under an investment management agreement with an affiliated company, John Hancock Life Insurance Company.

In addition, the Company agreed to provide a non-interest-bearing, unsecured, subordinated, limited recourse loan to enable the trust to pay certain of its costs associated with each issue of notes. Accordingly, three loans are outstanding at the following carrying values:

Receivable from:	Maturity	2003	2002
Maritime Life Canadian Funding	January 9, 2004	$ 1,094	$ 1,373
Maritime Life Canadian Funding	September 12, 2006	649	814
Maritime Life Canadian Funding	November 12, 2008	1,007	–
		$ 2,750	$ 2,187

The Company also provided an indemnity to cover certain unexpected costs and tax liabilities potentially incurred by the trust, the Issuer Trustee and the Indenture Trustee in the future.

18. Investment income

Investment income was derived from the following sources:

	2003	2002
Bonds and debentures	$ 322,846	$ 293,285
Mortgages	168,785	156,397
Equities	129,870	(58,627)
Real estate	31,318	31,638
Policy loans	6,861	6,830
Short-term investments	7,310	7,755
Other investment income	12,947	(4,792)
Amortization of deferred gains and losses		
Bonds	9,634	7,083
Mortgages	1,297	1,107
Equities	3,620	2,144
Real estate	2,084	1,656
Investment expenses, including net credit provisions, write-offs and recoveries	(32,887)	(45,563)
	$ 663,685	$ 398,913

19. Income taxes

The income tax expense for the year consists of:

	2003	2002
Current	$ 494	$ 55,758
Future	40,096	1,130
	$ 40,590	$ 56,888

The income tax expense for the year consists of:

	2003	2002
Current:		
Federal income taxes	$ (9,330)	$ 45,167
Federal capital taxes	4,300	4,390
Provincial income taxes	5,015	6,201
Foreign income taxes	509	–
	$ 494	$ 55,758
Future:		
Federal income taxes	40,703	(6,942)
Provincial income taxes	(607)	8,072
	$ 40,096	$ 1,130
Total income tax expense	$ 40,590	$ 56,888

The provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	2003	2002
Provision for income taxes at statutory rate	36.4%	38.5%
Increase (decrease) from statutory rate:		
Tax exempt investment loss (income)	(14.1)%	2.6%
Capital taxes	2.9%	3.5%
Effect of change in future statutory rates	(0.8)%	(0.4)%
Prior years reassessments and adjustments	1.1%	0.4%
Other	1.4%	1.4%
Effective tax rate	26.9%	46.0%

The significant components of the Company's future tax assets and liabilities were as follows:

	2003	2002
Future tax assets:		
Policy liabilities	$ 22,976	$ 22,292
Other assets	(7,480)	(793)
Net future tax assets	15,496	21,499
Future tax liabilities:		
Invested assets	(144,824)	(148,159)
Pension plan	(2,114)	(3,231)
Other	(3,825)	(2,215)
Net future tax liabilities	(150,763)	(153,605)
	$ (135,267)	$ (132,106)

20. Net income to shareholders

	2003	2002
Participating business	$ 2,120	$ 2,063
Non-participating business	89,223	59,775
	$ 91,343	$ 61,838

21. Earnings per common share

Earnings per common share ("EPS") is calculated after adjusting net income for the amount of income attributable to preferred shareholders as follows:

	2003	2002
Net income to shareholders	$ 91,343	$ 61,838
Deduct:		
Preferred shareholder dividends	(13,659)	(7,148)
Net income attributable to common shareholders	$ 77,684	$ 54,690
EPS attributable to common shareholders *(in dollars)*	$ 221.84	$ 156.18

22. Future employee benefits

The Company provides pension benefits to substantially all employees. These benefits are provided through four defined benefit pension plans, two supplemental executive retirement plans accounted for as defined benefit plans and two defined contribution pension plans. Pension benefits provided under the defined benefit pension plans are based on years of service and average compensation generally during the five years prior to retirement.

The Company also provides medical, dental and life insurance benefits under three closed post-retirement benefit plans.

The total expense for the Company's defined contribution plans is $5,880 (2002 – $4,666).

The changes in benefit obligation and plan assets related to the Company's four defined benefit plans and its three closed other post-retirement benefit plans are summarized as follows:

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Change in benefit obligation:				
Balance, beginning of year	$ 107,340	$ 121,810	$ 11,013	$ 11,074
Current service cost	3,310	3,920	–	–
Interest cost	8,108	7,459	614	271
Benefits paid	(5,247)	(5,263)	(370)	(332)
Actuarial loss	17,741	5,429	5,727	–
Settlement	(1,849)	(26,015)	–	–
Acquisition *(note 3)*	24,211	–	(4,522)	–
Balance, end of year	$ 153,614	$ 107,340	$ 12,462	$ 11,013

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Plan assets:				
Fair value, beginning of year	$ 121,651	$ 152,609	$ –	$ –
Actual return on plan assets	(3,239)	(676)	–	–
Employer contributions	1,227	996	440	–
Benefits paid	(5,885)	(5,263)	(440)	–
Acquisition *(note 3)*	37,738	–	–	–
Settlement	–	(26,015)	–	–
Fair value, end of year	$ 151,492	$ 121,651	$ –	$ –
Funded status - plan surplus (deficit)	(2,122)	14,311	(12,462)	(11,013)
Unamortized net transitional amount	(6,696)	(8,459)	–	–
Unrecognized net actuarial loss (gain)	26,242	14,644	(3,649)	–
Accrued benefit asset (liability)	$ 17,424	$ 20,496	$ (16,111)	$ (11,013)

The assumptions used in accounting for the Company's benefit obligations are as follows:

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Discount rate	6.0%	6.5%	6.0%	6.5%
Expected return on plan assets	7.5%	7.5%	7.5%	7.5%
Rate of compensation increase	4.5%	4.5%	4.5%	4.5%

For measurement purposes, a 7.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. The rate was assumed to decrease by 1% per annum to 5.75% in 2005 and remain at that level thereafter. Dental costs were assumed to increase at a constant 6% per year. Increasing (or decreasing) these assumptions by 1% per year would not have a material impact on post-retirement benefits expense for the year.

23. Stock-based compensation

Executive management of the Company participate in the John Hancock Canadian Holdings Limited Stock Option Plan (as amended) ("JHCH SOP") whereby options to purchase Class B shares in the Company's direct parent are granted. The objective of this plan is to attract and retain the best personnel and promote the success of the Company in achieving growth and profitability performance based on financial results determined using US GAAP.

Participants can elect to exercise the options or a corresponding stock appreciation right (SAR). SARs can be exchanged for a cash amount equal to the difference between the exercise price and the fair value of the Class B shares on the exercise date.

Options granted vest over a three-year period. Vested options are measured at fair value and recorded as compensation expense. Subsequent changes in the number of options granted due to non-retention are reflected as a recovery of compensation cost when forfeited. Subsequent changes in the fair value of the options granted are measured at each reporting period and recorded as compensation cost for that period. For the year ended December 31, 2003, compensation expense in the amount of $7,085 (2002 – $147) has been included in operating expenses.

Under the terms of the JHCH SOP, a change of control will trigger an immediate vesting of any issued but non-vested options. If the proposed merger of Manulife Financial Corporation, Jupiter Merger Corporation and John Hancock Financial Services, Inc. should proceed, the Company estimates that the additional vesting under the JHCH SOP would require an additional $11,092 of compensation expense to be incurred.

24. Contingent liabilities

From time to time in connection with its operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal expenses in excess of amounts provided for in policy liabilities and the Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

25. Commitments

Future minimum payments under non-cancelable operating leases for premises and equipment having terms in excess of one year consist of: 2004 – $19,629; 2005 – $16,496; 2006 – $12,281; 2007 – $11,299, 2008 – $10,413 and thereafter – $38,459.

26. Segmented information

The Company operates in the Canadian life insurance industry and conducts its operations in four business line divisions that cover three reporting segments: Retail Protection, Asset Gathering, and Group Life & Health. Retail Protection covers individuals and includes traditional whole and term life, health, disability and critical illness insurance as well as universal life products. The Asset Gathering segment includes individual and group immediate and deferred annuities, institutional annuities, guaranteed savings and segregated fund investments. Group Life & Health includes group life, disability and accident & sickness insurance.

The Retail Protection and Asset Gathering segments are managed under the Retail Division, with the exception of group immediate and deferred annuities and institutional annuities, because they share the same distribution channels and have common marketing strategies. The group immediate and deferred annuities and institutional annuities are managed within the Pensions and Group Investments Division as these products are aimed at institutional and corporate customers. The group life and accident and sickness insurance products are managed by the Group Division.

The Company's Corporate & Other segment is comprised of the Investments Division and the Corporate Division. The Investments Division has responsibility for ensuring the assets supporting the policy liabilities are appropriately invested. Investment income is reported within the business segment to which the underlying invested assets are matched. The Corporate Division is responsible for the staff, facility and technology infrastructures, corporate finance, capital management, legislative and regulatory compliance and corporate governance.

The following chart shows summarized operating income by reportable segment. For policy liabilities and supporting assets, also see note 9. Upon the assumption of the Liberty Health insurance business *(see note 3)* effective on July 1, 2003, the Company decided to change its segmentation categories. Certain of the acquired business of Liberty Health includes individual life and health business, marketed both directly and through affinity groups, complementing the Company's existing individual disability business and accordingly, has been classified within the Retail Protection segment from the date of acquisition. In addition, the former Group Life & Health segment had included certain health business that also was marketed through affinity groups, and accordingly, this business has now been retroactively reclassified to the Retail Protection segment.

2003	Retail Protection	Asset Gathering	Group Life & Health	Corporate & Other	Total
Revenue					
Premiums	$ 560,802	$ 419,714	$ 1,209,218	$ –	$ 2,189,734
Investment income	391,970	150,061	121,655	–	663,686
Segregated fund fees	692	107,737	–	–	108,429
Other	1,881	2,769	50,313	675	55,638
	$ 955,345	$ 680,281	$ 1,381,186	$ 675	$ 3,017,487
Policy benefits and expenses					
Policy benefits paid and accrued	$ 674,928	$ 607,027	$ 1,111,313	$ –	$ 2,393,268
Commissions, selling and operating expenses	191,492	103,848	224,264	7,365	526,969
Transfer from segregated funds	(257)	(82,561)	–	–	(82,818)
Interest on notes payable	9,619	–	–	–	9,619
Interest on subordinated debt	8,120	6,752	4,855	–	19,727
	$ 883,902	$ 635,066	$ 1,340,432	$ 7,365	$ 2,866,765
Income before income taxes	$ 71,443	$ 45,215	$ 40,754	$ (6,690)	$ 150,722

2002	Retail Protection	Asset Gathering	Group Life & Health	Corporate & Other	Total
Revenue					
Premiums	$ 546,167	$ 505,416	$ 835,696	$ –	$ 1,887,279
Investment income	153,356	141,018	104,539	–	398,913
Segregated fund fees	679	111,083	–	–	111,762
Other	708	282	35,268	4,636	40,894
	$ 700,910	$ 757,799	$ 975,503	$ 4,636	$ 2,438,848
Policy benefits and expenses					
Policy benefits paid and accrued	$ 445,233	$ 668,436	$ 779,323	$ –	$ 1,892,992
Commissions, selling and operating expenses	188,699	110,398	149,177	14,532	462,806
Transfer from segregated funds	(63)	(68,675)	–	–	(68,738)
Interest on notes payable	8,210	–	–	–	8,210
Interest on subordinated debt	9,647	3,971	6,256	–	19,874
	$ 651,726	$ 714,130	$ 934,756	$ 14,532	$ 2,315,144
Income before income taxes	$ 49,184	$ 43,669	$ 40,747	$ (9,896)	$ 123,704

27. Supplemental cash flow information

Cash flows from investing activities

Cash flows from investing activities include the following summary transactions involving invested assets:

	2003	2002
Sales, maturities, prepayments and scheduled redemption of:		
Bonds	$ 1,696,333	$ 1,409,577
Equities	157,807	104,728
Real estate	17,338	3,414
Mortgages	184,782	232,378
Other	81,435	(1,020)
	$ 2,137,695	$ 1,749,077

	2003	2002
Purchase/issue of:		
Bonds	$ (2,453,342)	$ (1,811,901)
Equities	(186,695)	(173,775)
Real estate	(11,169)	(15,581)
Mortgages	(486,578)	(471,133)
Other	(20,653)	(54,249)
	$ (3,158,437)	$ (2,526,639)

Cash and cash equivalents definition

	2003	2002
Outstanding cheques	$ (38,617)	$ (25,107)
Term deposits with original maturities of 90 days or less, at interest rates of 0.98% to 2.80% (2002 – 1.27% :· 3.11%)	385,776	245,297
	$ 347,159	$ 220,190

Other supplementary cash information

	2003	2002
Cash paid for:		
Interest	$ 33,905	$ 34,324
Dividends on redeemable preferred shares	13,659	7,148
Income taxes	77,434	22,069
	$ 124,998	$ 63,541
Cash dividends and interest received	$ 396,251	$ 418,203

28. Comparative figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.

Overview of Corporate Governance Practices



Maritime Life looks for breadth of expertise in recruiting new directors and seeks a diversity of professional backgrounds and national representation.

GOOD CORPORATE GOVERNANCE is the foundation of a financially solid company and underpins the financial well-being of all Maritime Life stakeholders—policyholders, shareholders, distribution partners and employees. The corporate governance framework within which Maritime Life operates has allowed it to meet the evolving expectations of our stakeholders.

Mandate of the Board of Directors

The Board of Directors is responsible for the stewardship of Maritime Life. The Board expects management to operate the Company in a financially sound and ethical manner, to foster growth and profit, and to provide clear and concise information on the operations and future direction of the Company.

As part of its stewardship activities, the Board oversees the development by management of:

- overall corporate strategy that results in meaningful policyholder and shareholder value;
- prudent risk management policies and practices, including the integrity of the internal control and management information systems;
- appropriate succession planning for senior executive roles;
- effective regulatory compliance procedures and adherence to the laws and regulations governing the Company; and
- fair, transparent and timely reporting of the financial results of the Company.

Composition of the Board of Directors

The number of directors of the Company can range from 12 to 20. At December 31, 2003, there were 17 directors, a majority of whom are unrelated. All directors, except the President & Chief Executive Officer, are independent of management. Maritime Life's common shares are ultimately owned by John Hancock Financial Services, Inc. ("John Hancock"), through a Canadian holding company. During 2003, four senior officers of John Hancock were actively involved on the Company's Board and provided direct shareholder feedback. A further four directors are elected annually to represent shareholder interests. Nine directors are elected annually to represent the interests of participating policyholders. The Chairman of the Board is a former officer of the Company who is now separate from management and has been since 1995.

Maritime Life looks for breadth of expertise in recruiting new directors and seeks a diversity of professional backgrounds and national representation.

The Board, including its committees, met four times in 2003, both with and without management present. With the exception of the Executive Committee, committees of the Board are composed of a majority of directors unrelated to the common shareholder or management of the Company.

Committees of the Board

The Board is assisted in fulfilling its responsibilities through the work of six committees, which report their activities to the full Board.

The Executive Committee, comprised of the Chairman of the Board, the President & Chief Executive Officer and representatives of the common shareholder, acts on behalf of the Board in connection with Company business between meetings of the Board of Directors.

The Investment Committee oversees the investing and lending of the funds of the Company in accordance with prudent investment policies and the provisions of the Insurance Companies Act of Canada.

The Conduct Review and Corporate Governance Committee, comprised of a majority of unaffiliated directors, oversees the Company's compliance activities and corporate governance practices and advises management generally on matters of corporate conduct, including the monitoring of related party transactions and conflicts of interest.

The Customer Issues Committee oversees activities relating to the Company's customers, including the monitoring of customer satisfaction levels, approval of the dividend scale for participating policies, as well as performance of and compliance with the Company's risk management policies relating to product design and pricing, and underwriting and liability management.

The Audit Committee, comprised of a majority of unaffiliated directors, reviews the Company's internal controls, reviews accounting policies, engages independent external auditors and reviews the annual external audit plan and non-audit services, if any, reviews the internal audit plan annually and reviews the financial reporting and disclosure practices for both the general fund of the Company and its segregated funds. The Audit Committee's charter is reviewed annually to ensure that it reflects evolving best practices for Audit Committees.

The Human Resources Committee approves the Company's compensation plans and philosophy, recommends the appointment of the president and senior officers, oversees the Company's succession planning, reviews and approves principles for the recruitment, hiring, training and evaluation of employees and advises management generally on human resource related issues.

Dividend Scale

DIVIDEND SCALES FOR PARTICIPATING insurance policies are declared on an annual basis and distributed according to the contract. The amount of surplus available for distribution is influenced by trends in earnings and experience, by dividend guarantees and by the need to maintain the long-term vitality of the participating fund. Maritime Life uses the contribution principle to allocate divisible surplus to individual policies in proportion to their contribution to earnings. The allocation process strives to ensure reasonable equity among different classes and generations of participating policies as well as equity among individual policies within each class. The determination of dividends complies with regulatory and professional standards.

Management



Front row from left to right: **Mel Bartlett, Phil Pothier, Joanne Keigan, Peter Stuart, Josephine Marks**

Back row from left to right: **Bill Black, Bob Nicholas, Cecil Smith, Murray Coolican**

Absent: **David McFarlane**

Senior Management Team

William A. Black
President and Chief Executive Officer

Melvin D. Bartlett
Senior Vice President, Retail Marketing

Murray Coolican
Senior Vice President, Corporate Resources

Joanne M. Keigan
Senior Vice President, Retail Operations

David J. McFarlane
Senior Vice President, Specialty Markets

Josephine E. Marks
Senior Vice President, Pensions & Group Investments

Robert M. Nicholas
Senior Vice President, Group Operations

Philip J. Pothier
Senior Vice President and Chief Financial Officer

Cecil B. Smith
Senior Vice President and Chief Information Officer

Peter A. Stuart
Senior Vice President and Chief Investment Officer

Corporate Structure

Principal Subsidiaries	Address	Beneficial Ownership	Book Value of Capital Stock ($ 000's)
Churchill Office Park Limited	Toronto, ON	45%	–
880 Belgrave Way Holdings Ltd.	Vancouver, BC	100%	–
Equinox Financial Group Inc.	Toronto, ON	8%	$ 1,100
Financial Life Assurance Company of Canada	Toronto, ON	100%	nil
Landex Properties Limited	Vancouver, BC	100%	$ 2,476
PVS Preferred Vision Services Inc.	Toronto, ON	20%	$ 145

Directors

Board of Directors

Michael A. Bell (9/11)
Boston, Massachusetts 1, 4, 6
Senior Executive Vice President
John Hancock Financial Services, Inc.

William A. Black (16/16)
Halifax, Nova Scotia 1, 4, 5
President and Chief Executive Officer
The Maritime Life
Assurance Company

J. Dickson Crawford (22/22)
Mahone Bay, Nova Scotia 1, 3, 4, 6
Chairman of the Board
The Maritime Life
Assurance Company

John R. D' Eathe (10/10)
West Vancouver, British Columbia 5
President
Freehold Development Canada Ltd.

Mark W. (Sam) Davis (9/12)
Boston, Massachusetts 1, 2, 5
Vice President
Real Estate Investment Group
John Hancock Financial Services, Inc.

Robert P. Dexter, QC (13/14)
Halifax, Nova Scotia 2, 5
Chairman and Chief Executive Officer
Maritime Travel

MGen. (Ret'd) M. Scott Eichel (13/14)
Victoria, British Columbia 3, 4

Ruth M. Grant (11/14)
Toronto, Ontario 2, 4
President
Craigellachie Holdings Ltd.

Lawrence J. Hayes, QC (19/20)
Halifax, Nova Scotia 3, 4, 6
Partner
McInnes Cooper

Jean C. Lavoie (13/14)
Montreal, Quebec 2, 4
Business Consultant

Douglas G. MacKenzie (13/14)
Oakville, Ontario 3, 5
DMCS Ltd.

Robert J. Mair, QC (14/14)
Vancouver, British Columbia 2, 4
Partner
Lawson Lundell

Thomas E. Moloney (14/19)
Boston, Massachusetts 1, 2, 5, 6
Senior Executive Vice President and
Chief Financial Officer
John Hancock Financial Services, Inc.

Jocelyne Pelchat (20/20)
Sutton, Quebec 3, 4, 6
President and Chief Executive Officer
Entreprises Pelchat Moïse Inc.

Anna Porter, OC (10/10)
Toronto, Ontario 5
Publisher and Chief Executive Officer
Key Porter Books

Robert R. Reitano (6/12)
Boston, Massachusetts 1, 5
Senior Vice President and Chief
Investment Strategist
Investment Strategy Group
John Hancock Financial Services, Inc.

Dr. Thomas D. Traves (14/14)
Halifax, Nova Scotia 3, 4
President and Vice-Chancellor
Dalhousie University

Honorary Directors for 2003

Dr. D. Andrew Eisenhauer
Lunenburg, Nova Scotia

Fraser M. Fell, QC
Toronto, Ontario

Dr. Reva D. Gerstein, CC, O.Ont.
Toronto, Ontario

Mr. John W. Lindsay, Sr.
Dartmouth, Nova Scotia

The bracketed numbers following each name indicate the total number of board and committee meetings which the director attended, followed by the number they were eligible to attend in the 12 months ended December 31, 2002. The numbers following the director's location indicate the board committee memberships.

1. Executive Committee
2. Audit Committee
3. Conduct Review and Corporate Governance Committee
4. Customer Issues Committee
5. Investment Committee
6. Human Resources Committee



Version française *On peut se procurer sur demande la version française du présent rapport annuel auprès de :*

La Secrétaire
de La Maritime, compagnie d'assurance-vie,
7 Maritime Place,
P.O. Box 1030, Halifax NS B3J 2X5



Head Office

7 Maritime Place
P.O. Box 1030
Halifax, Nova Scotia
B3J 2X5
(902) 453-4300

Annual General Meeting

Wednesday, April 7, 2004
11:00 A.M.
World Trade and Convention Centre
Halifax, Nova Scotia

Stock Symbols

Series A, First Preferred Shares:
MMF.PR.A
Series 1, Second Preferred Shares:
MMF.PR.B
Series 3, Second Preferred Shares:
MMF.PR.C

The Maritime Life Assurance Company

Head Office
Halifax, Nova Scotia

Regional Offices:
Halifax, Nova Scotia
Montreal, Quebec
Toronto, Ontario
Markham, Ontario
Kitchener, Ontario
Calgary, Alberta
Vancouver, British Columbia

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